

Democratic National Committee, 1/12/77

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Talking Points

*Need show
of harmony*

- I. Democratic administration taking over an economic and -budgetary situation that is in bad shape.

Economy:

- 8 % unemployment
- recovery has slowed
- virtually every economic forecast predicts that economic growth in 1977 will not be enough to reduce unemployment significantly
- world economy has also slowed---stronger countries (U.S., Germany, Japan) must take actions to stimulate, or else whole world in trouble

*GNP \downarrow 4% \rightarrow 4 1/2
inflation \sim 5% \rightarrow*

Budget:

- Budget deficit in FY 1977 will amount to \$60 billion, virtually all of which due to continuing recession

- II. Need to take strong economic actions with four goals:

1. Get private economy moving up in healthy self-sustaining recovery: restore sense of progress and confidence in American people.
2. At same time take direct government actions to put people to work doing useful things.
3. Make a beginning on simplifying and reforming tax system.
4. Be prudent and careful about it so as not to over-commit---still shoot for balanced budget when economic recovery has taken full effect.

*National
priorities*

- III. Therefore need a combination of measures. No one thing will do.

- We have considered a number of different options and combinations
- We have, at least in broad outline, tentatively identified the kinds of action which meet the four objectives
- Would like to sketch this outline and get advice of the Congressional leaders

ELECTROSTATIC REPRODUCTION MADE FOR
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IV. Direct job creating actions

1. Expand public service employment from present 300,000 jobs

- first to 500,000 (*already authorized*)
- then, beyond, to somewhere between 600,000 and 725,000 *\$8000/job*
- there are useful jobs to be done
 - conservation
 - rehabilitation *Green Thumb*
 - clean-up of cities
- makes no sense to leave people idle--paying unemployment compensation and welfare--when there is so much that needs to be done.
- not "make-work," but productive tasks

2. Expand the current \$2 billion public works program, by an additional \$1 to \$2 billion

- \$ 24 billion in applications: many good projects
- some problems with current distribution; needs better administration; part of problem due to 70/30 formula now in the law

3. Undertake a carefully selected range of expanded skill training, and job placement for youth and for other hard-core unemployed under CETA;

-emphasis on

- (i) youth *Youth Employment Service*
- (ii) maximizing use of private sector on-the-job training
- (iii) specially disadvantaged (migrants, Indians)
- (iv) veterans

4. Expand the counter-cyclical revenue sharing program by, perhaps, \$ 1 billion per year in 1977 and 1978.

V. Tax simplification and reform

1. At the present time the standard deductions consists of three parts:

- a minimum (\$1700 single; \$2100 couple)
- then 16% of income
- up to a maximum (\$2400 single; \$2800 couple)

2. This ~~will~~ makes for a very complicated tax form (look at your 1976 tax return!)

V. Continued-

3. By providing for a single standard deduction (equal to the current maximum of \$ 2400 single; \$ 2800 couple) we could
 - (i) Substantially simplify the current tax form
 - (ii) Provide \$4 billion in tax reduction for most people below \$ 17,500 in income
 - (iii)

VI. A modest business tax cut would be useful to stimulate economic activity but more importantly as a symbol of our concern for the business community.

-a credit against income tax equal to ^{about} 5% of the employers' payroll tax would have several advantages

- help labor intensive firms
- reduce the cost of living ~~living~~ ^{living}

2% Inc Tax Credit

VII. All of these actions taken together, however, would not be sufficient to provide the necessary economic stimulus

- a larger increase in government spending cannot be gotten underway promptly
- too large an increase in spending would also lock us into excessively large deficits in 1978 and 1979
- too large a permanent tax cut would mortgage future revenue that we need:
 - to launch new programs in later years
 - to balance the budget in 1980
 - to grease the wheels of tax reform
- Therefore a one-time rebate of 1976 taxes will be needed:
 - we haven't settled on particular form of rebate
 - but would be simple and concentrated on middle to lower income groups

VIII. Putting all of this together, we think a combined package along the following lines would meet the four goals outlined at the beginning:

Component	<u>Costs</u>	
	FY	FY
	1977	1978
1. \$ 5-8 billion expenditure increase	2	5-8
2. \$ 4 billion ^{authorized, to be appropriated later} tax reform and simplification	2	6
3. \$ 2 billion business tax cut	1	2
4. \$ 7-11 billion rebate	7-11	0
5. Fiscal 1978 budget savings via cost reductions	0	-2
	<u>12-16</u>	<u>11-14</u>

(with extra \$2 bill. public works)

IX. Need to have fairly large impact in 1977, but to avoid committing too much in 1978.

X. Housing. Some possibilities here that we are studying, but not ready just yet to make recommendations (welcome advice)

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United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
WASHINGTON, D.C. 20510

November 19, 1976

cc:
Schlesinger
J

MEMORANDUM

TO: Senator Jackson
FROM: Interior Committee Staff
RE: Energy Meeting with President-Elect Carter

Attached are the following materials for your review for the meeting you will have with Governor Carter next week.

1. Several short memoranda, prepared by individual staff members, each of which attempts to distill the essentials of the message on energy that should be given to the new Administration.

When we have your reaction to the points made, a single such paper should be synthesized which effectively reflects your views.

2. A series of short papers dealing with central issues in the energy policy process.

The list of topics covered is not comprehensive; however, we could easily expand the set of papers to include additional issues for your use or for background for Governor Carter's staff. Topics covered in these attached papers are:

- Energy policy since the embargo
- Federal energy resources
- OCS leasing
- Alaska oil and gas
- Nuclear energy
- Energy conservation
- Energy research and development policy
- Federal-State relationships
- Energy environment conflict and tradeoff
- Canadian - U. S. energy policy

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United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
WASHINGTON, D.C. 20510

November 19, 1976

MEMORANDUM

To: Senator Henry M. Jackson

From: Grenville Garside

Re: Carter and Energy Policy

In considering an initial course of action for the new President in the energy field, the history of the past four years is worth recalling.

At the beginning of 1973, the Nixon Administration -- having ignored energy issues for four years -- began to realize how serious the situation was. However, before the Administration could develop a program the embargo hit. This was the period you may recall when energy was on the obituary pages and the Administration was opposing energy R&D and the strategic reserves programs.

The embargo offered an unprecedented opportunity to educate the public and make some of the hard decisions involved in coming to grips with energy problems. But as the embargo ended, Nixon was in the throes of Watergate and the Executive Branch was paralyzed. As far as Nixon was concerned, the energy crisis ended with the embargo, and this is what he told the public.

Ford came to office in August, 1974 with the opportunity to do business with Congress on at least some essentials of an energy program. He chose instead to politicize the energy issue by sending Congress in early 1975 a massive piece of energy legislation which he called a program and then publicly challenged Congress

to do any better. For most of 1975 he engaged Congress in a running battle on energy, primarily energy pricing, before the Energy Policy and Conservation Act was passed and energy put to bed for the campaign.

Thus the energy record of the Nixon-Ford years is one of acrimony, politicization, and sweeping the problem under the rug. At no time did either man make a sustained effort to tell Americans how serious the energy problem is and how much worse it is likely to get.

Under the circumstances, it is surprising that as much progress was made on energy legislation in such fields as conservation, the management of energy shortages and energy research and development. This progress is due in no small part to Congressional initiatives, as you well know. The fact is, however, that there exists today vast confusion and misunderstanding in the Congress and among the general public as to the critical nature of our energy problems.

In my view, it would be a great mistake for Carter to attempt to send an energy program to the Hill without careful preparation. There is no required legislation so urgent that a few months delay will make any difference. Furthermore, neither Carter nor his appointees will be able to absorb overnight the complexities -- political and otherwise -- of such issues as loan guarantees for synthetic fuels, oil import controls and natural gas regulation. These are issues with a history that Carter should know before he acts.

Carter's energy priorities, in my view, should be as follows:

- (1) The appointment of men or women of the highest stature to head existing energy agencies like FEA and ERDA with the designation

of someone as the "Czar" to become head of a future cabinet-level energy department. The calibre of the people will signal the importance Carter attaches to energy.

- (2) The beginning of a major Presidential effort to educate the American people on energy issues. The thrust of the message should be that we are running out of oil, that we are living on borrowed time with respect to the availability of Arab oil and that the status quo on energy simply will not do. Parenthetically, it is in Carter's interest to make clear that he inherited the energy problem which has become more serious because of the misfeasance or non-feasance of his predecessors.
- (3) Initiating a series of consultations with energy leaders in Congress to discuss the serious nature of the problem and legislative priorities. No President has ever called the energy leadership of Congress to the White House for consultation.
- (4) Designating a small panel of people like Chuck Luce, Sam Hughes, and Pete Peterson to make recommendations within sixty days for an energy reorganization plan. This, of course, could be done now. The plan should be submitted as soon as possible, recognizing that it may be several months before action is completed. Ideally, the plan should not be submitted until Carter has a clearcut concept of his overall energy policy.
- (5) After he has been in office two or three months, Carter should submit a message to Congress which outlines his energy policy

focusing more on the problem and his overall approaches than on specific legislative proposals, which should be limited to a few priority subjects like coal. It is important that this message be specific in its goals and objectives.

- (6) During this early period, the Carter Administration should give priority to the management of energy programs already authorized by Congress which have not necessarily been adequately or expeditiously implemented by the present Administration. I have in mind, for example, contingency planning, strategic reserves and state conservation programs.

In conclusion, let me again emphasize the view that action on the many legislative proposals in the energy field can readily be deferred during a period of education, consultation and policy formulation in the early months of 1977.

I enclose a copy of Chuck Luce's comments, which you may have seen, and a copy of Mel Conant's letter to me, which you have not seen.



Consolidated Edison Company of New York, Inc.
4 Irving Place, New York, NY 10003

November 15, 1976

The Honorable Henry M. Jackson
United States Senate
Washington, D. C. 20510

Dear Scoop:

I hope it won't seem presumptuous if I set down for your consideration a few thoughts on national energy policy.

I believe the first thing we need is public understanding that we face an energy crisis. Prudent planning requires that we assume another oil embargo. It also requires we assume that the free world will exhaust its oil and gas supplies in 30-50 years even if OPEC continues to supply its oil demands. But we act as though the supply of oil is infinite. Almost every project to bring in new supplies of oil or gas, or to substitute other forms of energy for oil and gas, is delayed or defeated: off-shore drilling, liquified and gasified coal, oil shale, LNG, nuclear, coal, hydro, electric and gas transmission, etc. Manufacturers of small cars lose money on them.

Public awareness of the peril we face will be hard to instill. Only with leadership by the President and the Congress (and cooperation of labor, business, and the intellectual community) can the public be convinced to accept the high cost of an essential energy policy.

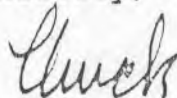
These are the three basics of an energy program that I think are essential:

- (1) Establish national energy goals -- both of conservation and production. This could be done by a separate agency -- or even a blue ribbon committee -- representing the various interests involved: producer, consumer, labor, environmental, national security, etc. The goals should be specific, year-by-year, over at least a 15-year period: kw of electric generating capacity classified according to fuel; tons of coal; barrels of oil; bcf of gas; pounds of uranium oxide; etc. For some purposes the goals should be restated on a regional basis.
- (2) Place in one or more federal agencies (the fewer, the better) the responsibility for seeing that these goals are met. It is necessary that:
 - (a) The licensing arm of that agency have authority to decide both the economic and the environmental issues involved in any proposed energy project. So long as environmental decisions continue to be made by agencies that are not responsible for meeting production goals, we cannot achieve either national or regional energy goals;
 - (b) The agency must also have authority to purchase newly produced fuels on terms that will enable new energy projects to obtain financing.
 - (c) Federal licensing of new energy projects must have the capability of pre-empting the field if state regulation is obstructive.
- (3) Limit judicial review of federal energy licensing and construction decisions to issues of due process.

These three essentials -- energy goals, comprehensive licensing decisions, and limited judicial review -- can be accomplished without repealing, or even compromising, the principles of the National Environmental Policy Act. The principal change would be that as regards energy projects NEPA would be administered by the responsible energy agency, without judicial review of its decisions. Congress, of course, would always have an oversight function to assure that NEPA's principles were being adhered to by the energy agency.

At your convenience I would be most happy to discuss with you these thoughts, or any other you may wish to talk about.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chuck", written in dark ink.

Charles F. Luce

MELVIN A. CONANT

INTERNATIONAL ENERGY

November 1, 1976

Mr. Grenville Garside
Staff Director,
Committee on Interior &
Insular Affairs
3106 Dirksen Senate Bldg.
Washington, D.C. 20510

Dear Grenville:

At our morning meeting yesterday you asked if I would list the top priority items on Energy which the next President should have before him. In complying, you know that I understand how complex a set of issues confronts each of my choices. An Energy Counselor to the President possessed of knowledge, sense of direction and resoluteness could cut through much, and soon.

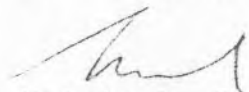
1. Clarification of specific energy goals, commitments and implementing responsibilities;
2. Clarification of the roles of government and industry in Energy exploitation, research and development;
3. Issuance of energy guidelines and objectives to be reviewed biannually with the Congress as to achievements and new legislative requirements; the goals to include a progressively diminishing level of imports, especially from the Persian Gulf; and a concurrent review of the implications of the present US-Saudi and US-Iranian relationship.
4. An all-out effort, unprecedented, but akin to the atomic energy or space effort, for the exploitation and required use of coal with compulsory use of environmental technology;

Mr. Grenville Garside
November 1, 1976
Page 2

5. Establishment of a comprehensive conservation program embracing all parts of our society and economic life;
6. Establishment under law and regulation of a process whereby U.S. international oil companies (and other foreign importers) consult with USG over negotiations involving significant, longer term volumes and prices; biannual report to the Congress.
7. Emphasis on constructive approach to dialog with producers and consumers of energy in world trade to better assure continuity of supply, adequate volume and appropriate price.

As these get underway, consideration must be given to the effective organization of our government to deal with our national energy interests.

Warm regards,



Melvin A. Conant

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WILLIAM J. VAN NESS, CHIEF COUNSEL

United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
WASHINGTON, D.C. 20510

19 November, 1976

MEMORANDUM

To: Senator Henry M. Jackson
From: Arlon R. Tussing
Re: CARTER ADMINISTRATION ENERGY OVERVIEW

Energy policy is not a promising area for early policy innovation by the new Administration. No new crisis is imminent, and there are no bold dramatic steps that can quickly assure long-term security of our energy supply or bring down fuel and electricity prices. Most bold moves would at least in the short run increase uncertainty and result in higher costs and prices. We can afford to spend a year or more reconsidering the whole spectrum of energy issues without the aura of crisis and confrontation that have surrounded them since 1973.

The rhetoric of energy "independence" or "self-sufficiency" ought to be given up. There is no way in the foreseeable future that our dependence on imported oil can be eliminated or even reduced. As a symbolic goal, energy independence is misleading and dangerous, because oil imports will most likely continue to increase over at least the next eight years, under any plausible combination of policies.

Action in the energy field during the first year of the new Administration can center on governmental reorganization, considered apart from major controversy over the policy content of existing or new energy programs. At the same time, the Energy Resources Council, assisted by a small, professional and prestigious staff and in consultation with Congressional leaders, should be reevaluating existing programs and developing new approaches where appropriate.

The main areas in which a major policy development effort must take place are:

1. Appropriate energy prices. Domestic oil and gas prices should be allowed to rise to market-clearing levels as quickly as the economy and public opinion will tolerate, with any adverse effects on incomes offset by fiscal and monetary measures. President Ford's pricing

policy was wrong not so much in principle as in timing --- steep price rises at the peak of inflation and unemployment would have killed the economic recovery without lasting effects on energy supply or demand. But the present control systems do subsidize wasteful consumption and oil imports, and keep domestic oil and gas in the ground that could replace foreign supplies at lower cost to the national economy.

Pricing disparities are at the heart of our problems with natural gas, which furnishes 40 percent of our primary energy. And the existing system of oil price controls is unenforceable without detailed surveillance over almost every transaction in the oil industry. The "entitlements" system that was set up to offset some of the inequities in the multi-tier system of crude oil price controls, is the largest cash transfer program in our history and creates real dangers to the integrity of government as well as major distortions in investment incentives.

Simple deregulation, however, would result in overcompensation for past controls (particularly in gas pricing) and would seriously affect the distribution of income and the viability of some industries. Movement toward a less regulated pricing regime for energy should take place with due deliberation and accompanied by the measures needed to mitigate its worst impacts on consumers and industry.

2. International energy policy. A realistic objective for U.S. policy is to assure adequate supplies of fuels and energy from environmentally acceptable sources at acceptable costs. Domestic energy is to be preferred to imports, but since we can not even remotely approach energy independence in the plannable future, there is no way we can achieve our supply and cost objectives without achieving them for the rest of the world.

Protection from sudden supply interruptions requires a strategic reserve and arrangements for sharing like those provided in the International Energy Agreement. But the real keys to preventing a gradual or sudden failure of supply are conditions that will benefit all oil consuming countries: (a) assurance that world oil producing capacity always remains substantially in excess of demand, which requires (b) geographic and political diversification of world oil supply, and (c) increased political, cultural and economic interdependence with the main oil producers,

which increases their stake in world economic stability, and their demand for the goods and services that can be financed only with growing oil exports.

These goals require complex and often subtle policies, some of which conflict with the current rhetoric of energy independence. For example, they may require us to increase rather than diminish incentives for the major oil companies to explore in foreign countries (where the amount of oil discovered per foot of exploratory drilling is many times the amount discovered in the United States). Also, it may be rather difficult to persuade Norway or Britain that they should maximize their production and exports of North Sea oil, while we refuse to permit the export of "surplus" Alaskan oil to the Far East.

3. Federal relations with states and communities

Development and transportation of domestic energy supplies depend increasingly on state or local authorities who must grant permits or make resources or sites available. Concern over social and environmental impacts, and a lack of articulation between federal and state policies and procedures have hindered the development of Outer Continental Shelf oil and gas and Rocky Mountain coal, and are now contributing to uncertainties over facilities for the transport of Alaskan crude oil beyond the Pacific Coast.

The national interest in energy resource development must be paramount, particularly where federally-owned resources are involved. But the optimum development of our resources and establishment of economically and environmentally sound energy transportation facilities requires far more intimate involvement of state and local officials in planning and implementation than has been the case under the Nixon-Ford Administration, and calls for new institutions of federal-state cooperation.

4. Other issues which may need a fresh approach.

Despite the existence of substantial recent legislation on energy conservation, the nation has no coherent or credible conservation policy. Also, programs for increasing the domestic use of coal in place of oil and gas have been a failure and need considerable reexamination.

Neither vertical nor horizontal divestiture can contribute to increasing the supply of environmentally acceptable energy or to reducing its cost. Attempts to break up the big oil companies will at least in the short-term reduce the capital available for investment in both conventional and new energy ventures. But the issue will not go away because of public concern over

the oil companies' great concentration of wealth and power. Some accomodation must be worked out that meets the public demand for greater accountability without crippling the major oil companies as vehicles of energy investment.

5. Problems requiring early resolution: Alaska oil and gas transportation. The most critical early decisions the new Administration must make regarding energy concern the transportation of oil and gas from Alaska. One has to do with the system for moving North Slope crude oil beyond the Pacific Coast, where a substantial surplus of high-sulfur, low gravity oil is in prospect. The other is the choice of a system to move North Slope natural gas to the Lower 48. Both decisions are federal responsibilities, involving the Federal Power Commission, the Interior Department and other agencies, but they involve difficult consultations or negotiations with Canada and with the states (principally Alaska and California).

The outgoing Administration's tendency has been to limit its actions on complex projects such as these to a choice of proposals already advanced by private industry; this is one of the reasons we now face an embarrassing surplus of crude oil on the West Coast. There is reason to believe that none of the options now being offered by industry in either of these cases is optimal from a logistical, economic or environmental standpoint; in the case of the gas transportation systems, there may be serious doubt about the viability of any of the systems as proposed by their sponsors.

Each of the two problems has major implications for the regional balance of energy supply, environmental quality and safety, federal-state relations and foreign policy. An Arctic gas transportation system probably requires federal financial assistance. Both situations call for a prompt decision by the President (before the end of 1977), but he has an opportunity to make a creative contribution if he does not limit his choices to those offered by the private sponsors of big construction projects or left behind by the previous Administration.

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WILLIAM J. VAN NESS, CHIEF COUNSEL

United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS
WASHINGTON, D.C. 20510

November 19, 1976

MEMORANDUM

TO: Senator Henry M. Jackson
FROM: Mike Harvey
RE: Priorities for Energy Policy

It is frequently asserted that the U. S. has no energy policy and that we need one badly. Most such assertions stop there. Some proceed to outline a policy which is usually simplistic - decontrol and let the free market decide or draconian - massive mandatory conservation - and ignores or minimizes the impacts of such a policy on other national objectives.

The Federal Government has policy responsibilities covering a broad range of issues. The economy, national defense, the distribution of income and wealth, the administration of justice, education, health, the environment, the energy are topic headings for only a few of these areas. As with most major policy areas, it is not possible to confine the impact of energy decision making. Policies which affect the energy situation also affect other areas in which Federal policy is important. So a tradeoff must be made. In deciding this tradeoff, should the energy imperative override other considerations most of the time? Do we think energy is that important?

We cannot develop one comprehensive policy response to the energy problem, because we do not have one comprehensive energy problem. We have numerous, fragmented energy problems and we must invent numerous, fragmented policy responses.

The best national energy policy is to identify specific problems and develop solutions which balance the three E's - Energy, Economy and Environment. Priorities must be established. The following policy areas deserve the highest priority attention from the new Administration:

1. Increased Use of Coal, How to dig it and burn it.

a. Federal surface mining legislation should be enacted.

The twice-vetoed bill could be simplified and streamlined, but issues must be resolved to remove existing uncertainty. Views of Carter Administration will be the key.

b. Clean Air Act Amendments. Past debate has been marked by reliance on emotion and dogmatism rather than facts. Here again, views of Carter Administration will be a key element. Perhaps auto emissions could be separated from coal problems - sulphur and particulates.

c. Conversion of Electric utility and other Large Boilers to Coal. We have begun a program of eliminating use of natural gas and oil as boiler fuels. Much more needs to be done.

2. Outer Continental Shelf Oil and Gas Development. Congress has been working on legislation to modernize the rules for development of oil and gas resources of OCS since 1974. Here again, there is an urgent need to resolve the issue so that all concerned - the oil and gas industry, State and local governments, and the Federal government can proceed with some degree of certainty. The bill which almost passed in September will be reintroduced. The views of the Carter Administration will be the key factor.

3. Nuclear Energy - need to set firm guidelines, standardization.

4. Natural Gas Pricing - This is another policy area which has been long debated and there is a need to resolve uncertainty. Legislation which put natural gas prices at the same level as oil prices on a Btu basis could be the answer.

5. Reorganization - Energy Mobilization Board - Establishment of a Department of Energy or Energy - Natural Resources could improve efficiency and coordination, but it is not a panacea.

We need a small organizational entity with authority to review all aspects of energy supply and to cut through procedural bottlenecks - an Energy Mobilization Board. Such a Board would serve as an arm of the President.

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United States Senate

COMMITTEE ON
INTERIOR AND INSULAR AFFAIRS

WASHINGTON, D.C. 20510

November 19, 1976

MEMORANDUM

TO: Senator Henry M. Jackson
FROM: Ben Cooper
RE: Energy Policy Overview

An opportunity for a constructive process for dealing with energy problems has been absent during most of the post-embargo period. Energy has been dealt with in an atmosphere of confrontation and, in many instances, superficiality. A totally new opportunity--for a fresh start--is now at hand.

The Carter Administration can perform an essential task of shaping the context in which people think about and discuss energy issues. To accomplish this, a number of things must be done.

1. Persons of stature, competence and great credibility must be appointed to key energy positions.
2. The notion that a single, comprehensive energy policy or program is needed, or will even be helpful, in addressing what we call our energy problems should be abandoned. Our energy problems are diverse, and they are really energy-environment-economic-social problems to which any detailed "energy policy" will be at best irrelevant.
3. We are not going to be energy independent within any time frame worth thinking about, nor are we going to be independent of Arab oil. Even if we were, the rest of the world will remain oil-and Arab-dependent. More importantly, however, energy independence is

a counterproductive organizing concept. It does not lead us to establish the priorities and policies which provide consumers with adequate--and secure--supplies of energy at acceptable economic, environmental and social costs.

4. Specific energy problems cannot in general be solved by raising prices and freeing up the private sector. This was Ford's program.

Despite the obvious difficulties with Federal intervention in the energy business, there is no alternative institution with the resources, money, authority and credibility to preside over the arrangements needed to deal with disequilibria in energy. To pretend that these issues can be dealt with without use of power--and suffering the inefficiencies--of Federal government is foolish.

5. The public is very confused about the nature of the energy problem.

(Is it that we can't afford the imports? Is it that the oil companies have too much power? Is it that we are running out of energy?) The experts do not agree on the formulation either. The Carter Administration needs to begin a dialogue--with the Congress and with the people--to determine what it is we expect to solve before new actions are proposed.

6. In spite of the confrontations of past years over energy policy, a number of programs (strategic reserves, energy data and information, energy conservation, research and development) have been enacted. In many of these areas, emphasis on implementation is really needed. This will lend credibility to the Federal effort in addition to accomplishing some useful work.

Newble
J. H.

Dan

Dreyfus

December 13, 1976

224-7141 office

Options for Reorganization
of Federal Energy Agencies

536-5491 Home

Background

Dating back to the Brownlow Commission in the Roosevelt Administration (1937), every major study of federal organization has produced a recommendation for reorganization of the Department of the Interior into a larger Department of Natural Resources (DNR). These proposed departments have always included an energy component. Until the advent of the energy crisis in about 1972, however, the energy component was not highlighted nor was energy policymaking the principal objective of the reorganization proposals.

These DNR proposals have been perennially unsuccessful in the Congress primarily because they threatened the comfortable relationships which existed among important client groups, the Executive bureaus and the respective Congressional oversight committees. Some of the major obstacles related to the proposed transfers of the Forest Service and the Soil Conservation Service out of the Agriculture Department and the Corps of Engineers out of its relatively autonomous position within the Defense establishment. Although they are somewhat reduced in significance, these allegiances continue today.

The energy crisis has made the Federal energy programs and responsibilities the focal point of reorganization in the natural resources field. The more recent Department of Energy and ^{Mineral} ~~Natural~~ Resources (DENR) concept is a natural outgrowth of earlier studies and discussions and, therefore, enjoys the commitment of many of the participants in earlier controversies and has a certain amount of political momentum.

The Current Situation

The energy crisis has resulted in a phenomenal expansion of the federal involvement in energy matters. Relatively insignificant programs, such as the pre-1970 non-nuclear R & D efforts, have expanded into major undertakings; and entirely unprecedented federal functions, such as the control over the allocation and pricing of petroleum, have been initiated.

In the name of expedient action, these new responsibilities have resulted in the creation of two major new energy agencies. The Energy Research and Development Administration (ERDA) represents both a change in character and an extraordinary expansion of the R & D role of the Atomic Energy Commission. The Federal Energy Administration (FEA)

is for all practical purposes an entirely new entity created from a rib taken out of the Interior Department. A new independent Nuclear Regulatory Commission has also been spun off.

Both ERDA and FEA were initially represented as interim arrangements pending a larger reorganization. FEA, in fact, is formally a temporary agency, mandated by a statute containing a self destruct termination date.

In the past Congress, the "temporary" nature of FEA was tested. The extension act preserved the rhetoric of a temporary organization. The hard-nosed resistance of the agency, the Administration, several energy client groups, and many in the Congress, to substantive provisions for an orderly termination of the agency, however, clearly showed that the traditional kinds of allegences and vested interests are fast coalescing around the FEA.

It is clear that ERDA, with its massive contracting activities, will also rapidly acquire powerful client groups which will resist any disturbance in their established relationships with the agency.

Any reorganization of the energy agencies must be undertaken immediately, and with aggressive Executive leadership if it is to have a chance of success. It will also

require a strong coalition of support within each house of the Congress. It is axiomatic that it is infinitely easier to frustrate action in the legislative process than to bring it about.

The Logic of Energy Reorganization

At present there are three major energy policy-making centers in the federal establishment:

1. The FEA has come to be the federal interface with the energy industries, particularly the petroleum industry. The Administrator has been (although he need not continue to be) the principal Executive spokesman on overall energy policy. The agency controls the data base for federal energy decisionmaking and provides the primary technical input to White House energy policymaking.

2. ERDA through its massive support for research, development, and demonstration of new energy technologies must create and evaluate the options for future energy policies. Furthermore, it has important long-range energy planning functions.

3. The Department of the Interior has the proprietary responsibility for management of federally-owned fuel resources. A major portion of potential future petroleum, coal, oil shale and uranium development would involve federal lands, including the Outer Continental Shelf. Geothermal and probably major solar energy development also will involve public lands. In every case, energy uses of public resources will conflict with other potential or existing uses of the public domain which are also overseen by Interior.

There are, of course, other important, if less central, energy responsibilities in Interior. They include, among others, electric power marketing from massive federal hydroelectric systems, water resource development, and the trustee relationship with Indian tribes.

There are other agencies which have specialized impacts upon energy policy, notably the Environmental Protection Agency and the regulatory commissions (FPC, NRC, SEC, ICC, etc.). A comprehensive consolidation of energy decision-making under a single Executive official would largely be accomplished, however, if ERDA, FEA, and Interior's energy functions were combined.

There is considerable evidence that energy programs have suffered from the existing division of decisionmaking. For example, ERDA's efforts to advance new energy technologies are intimately tied up with the potential availability of such resources. Most synthetic fuels proposals involve public lands and federal or Indian fuels and/or water supplies. The FEA, similarly, in promoting reliability of the national petroleum system must take into account policies for development of federal oil, gas, and even coal resources.

Perhaps a more significant consideration is that a federal energy official who presided over all of these functions would enjoy a great deal more leverage in his relationships with the energy industries than the existing divided responsibilities presently afforded the several chiefs.

Reorganization Options

Obvious options for greater consolidation of energy organizations are:

1. A full scale DENR in which the existing Interior Department is combined with FEA and ERDA. (The inclusion of other non-energy natural resource programs or additional energy programs would be negotiable.)

2. The combination of either ERDA or FEA with the Interior Department leaving the other agency independent.

3. The combination of ERDA, FEA and some energy functions of Interior apart from the residual functions of the Interior Department. ✓

4. The simple combination of ERDA and FEA.

1. Full Scale DENR

The advantages of a full scale DENR are:

- It results in centralizing most energy decisions within a single agency thereby assuring the maximum coordination of activities and resolution of conflicts at the agency level.
- The Secretary of DENR would become an energy spokesman with the broadest possible purview of the issues, the strongest technical support, and the greatest leverage in his dealings with non-federal entities.
- The intimate relationships between management of federal energy resources and competing or complimentary uses of the public lands would remain within a single administrative entity.

- The broad technical competence of multiple purpose agencies such as the Geological Survey and the Bureau of Mines would be preserved and would be readily available to support energy decisions.
- If the National Oceanographic and Atmospheric Administration were included in the Department, an organizational base would be created to foresee and respond to future resource shortages similar to the petroleum situation.
- The considerable existing political commitment to the DENR concept in the Congress by the media and among some public interest groups would be co-opted in the reorganization effort.

The disadvantages are:

- The Secretary of DENR would not be exclusively an "energy czar", he would be encumbered by major non-energy policy responsibilities.
- An elaborate internal organization would be required and the elegance of the concept is confounded by the need to deal with Indian affairs, parks and recreation, territorial affairs and such disparate functions.

- To the extent that non-energy reorganization is involved (NOAA, Forest Service, Corps, etc.) potential political opposition to the proposal will be increased.

2. Interior Combined with ERDA or FEA Alone

Advantages:

- The coordinative advantages would be greatly reduced from those of a full scale DENR but would nevertheless be considerable.
- If ERDA were integrated into Interior the serious planning dilemma involving future fossil fuel technologies could be more coherently addressed.
- Interior's scientific capability could be coordinated with ERDA's or its data gathering capacity with FEA's.

Disadvantages:

- A relatively sharp competition for energy leadership might result (particularly if FEA remained independent) leading to a breakdown in coordination.
- These reorganization schemes are patently less than optimal, hence are easy to attack.

3. Combination of ERDA, FEA, and Interior Energy Functions
into a New Energy Agency

Advantages

- The head of the energy agency would be unencumbered by non-energy responsibilities.
- Opposition to the proposal based upon non-energy considerations would be minimized.

Disadvantages

- The separation of Interior's energy resource functions would be conceptually and organizationally difficult (perhaps impossible). The ^{Energy} ^{Int.} G.S. and BLM for example do not isolate energy matters internally.
- Environmental and land management interests (grazers, non-energy mining, forestry, etc.) would probably oppose such a separation.
- The residual functions would become a more difficult management problem with diminished current significance and with much less ability to retain technical competence and budgetary viability. (See attached discussion of the problem of managing the Interior Department.)

- A new coordinative conflict would be created in management of the public lands.

4. Combination of ERDA and FEA

Advantages

- The number of independent energy decision centers would be reduced thereby reducing the number of major issues submitted for Executive Office resolution and reducing the minor issues which are left unresolved ("fall through the cracks").
- The rather severe existing ambiguity in the responsibility for long-range energy planning would be resolved.
- The nagging "temporary" status of FEA would be resolved.
- Potential political opposition to the proposal would be narrowed.

Disadvantages

- The most vexing coordinative problems, which are those between Interior functions and the other two agencies, would not be addressed.
- An opportunity to "revitalize" the presently comatose Department of Interior might be missed.

-- Politically there might be sharp opposition from the adherants of the two agencies without any contravening enthusiasm on the part of advocates of the DENR.

Recommendation

An initial proposal for a full-scale DENR which would include an "energy" component consisting of FEA, ERDA, and Interior energy functions and a "natural resources" component with a setpiece of a GS-NOAA resources inventory and monitoring entity would co-opt enthusiastic existing support. Concessions could be made in non-energy aspects of the proposal if the political opposition outweighed the significance of the matter of threatened the success of the major re-organization. The ultimate objective would be, at a minimum, to achieve the consolidation of ERDA and FEA, with the existing Interior Department. The internal organization of DENR would provide for an energy policy segment drawing upon the broader agencies such as GS, BLM, Mines, etc. as necessary.

The Problem of the Interior Department

The Department of the Interior is composed largely of old, relatively autonomous bureaus. Most of these agencies have programs and authorities which are established by statute

and which traditionally have been managed without regard to their interrelationships.

The Department itself, on the other hand, has no clear departmental mission. It is a "holding company" over a collection of agencies which share only an ill-defined natural resources orientation. Some of the bureaus are divided by rather deep-seated philosophical conflicts, such as that between mineral development and wilderness preservation.

The Secretary of the Interior has usually viewed his role as that of super bureau chief; presiding at a national park dedication one day and signing coal leasing contracts the next. Seldom has any Secretary formed a notion of a departmental attitude against which bureau decisions could be measured.

The creation of a DENR would not simplify the departmental management problem, but neither will the severance of some of the department's energy functions resolve it. In fact, the fundamental tensions between resource development and environmental preservation would be exacerbated if energy resources development were removed from the Department. The

Department would then be dominated by environmental, recreational, and pastoral interests and would become an adversary to the energy agency wherever development of public fuel resources was at issue.

The evaluations and tradeoffs which now plague the Secretary would become inter-agency contests and would plague the Executive Office. Clearly, they would then be addressed only spasmodically and in the grossest terms.

*These
obvious
problems
can be
resolved -
J*

Furthermore, any attempt to remove the fuel leasing functions from Interior would involve such drastic surgery that the department's most professionally competent agencies would be left decimated and demoralized.

There is an opportunity to manage the Department of the Interior at the secretarial level by utilizing the environmental impact statement process as a management information and decision-making system and by fully employing the budget process as a management control system. What is needed is strong and enthusiastic management and a spirit of departmental commitment. These can be provided only if the department is given a role in significant modern issues.

Whatever is done with energy reorganization, the other functions of Interior will remain important, possibly

of increasing importance. They will present a major management problem for the President. That problem should not be overlooked in the current obsession with energy matters.

WEIL, GOTSHAL & MANGES
M E M O R A N D U M

TO: Governor Carter

November 21, 1976

FROM: Orin Kramer

RE: New York City

I have had cooperative meetings with Governor Carey, Mayor Beame, MAC Chairman Felix Rohatyn, and labor and investment community representatives.

Through your statements and the presence of a staff person, you have conveyed the perception of concern and a willingness to work toward a solution. The maintenance of a cooperative atmosphere is adequate for the moment. Based on foreseeable circumstances, there is no need for visible Presidential or federal intervention prior to the Inaugural, for the following reasons:

1. The Court Decision. The New York Court of Appeals held that while the moratorium was unconstitutional, city note holders were "not entitled" to immediate payments if such payments would be "unnecessarily disruptive of the city's delicate financial and economic balance." The Court noted that the State Legislature would meet in regular session (commencing January 5) and "will be in a position" to adopt a fiscal resolution consistent with the court's holding -- a signal that the court is requiring no action before January at the earliest.

The court does not specify the actions to be taken or their timing, and will not do so until the parties have discussed alternatives, proposed their own plans, and had a chance to criticize their adversaries' proposals. Proposals may be made to the court in the next week or two, but a final decision is unlikely before the inauguration, and probably much later. The city's lawyers, who want to force a quicker decision on your part, would disagree with that assessment.

2. City Cash Flow. Assuming the Treasury makes its December loans of \$770 million, which Secretary Simon promised, and either the Treasury or the City pension funds provide another \$105 million about January 14 (the pensions are expected to oblige), the City will not need further cash through the end of February

3. Governor Carey and Mayor Beame. Governor Carey, Felix Rohatyn and Ken Axelson, the J. C. Penney executive vice president who served for a year as Mayor Beame's Deputy Mayor for Finance and is deeply respected by Mayor Beame, all agreed on the following:

1. Present circumstances do not warrant visible Presidential action until February -- April.

2. This is a poor issue to spotlight the opening weeks of your Administration.

3. You should continue to be cooperative, but on a low-key basis; increased visibility magnifies your exposure.

agree

They do, of course, believe that any permanent solution requires some form of federal credit assistance. MAC, through Rohatyn, will probably continue to call for federal credit guarantees to refinance the city's debt. MAC believes that the court decision accelerates the city's financing needs but does not alter the basic problems: the need for seasonal and capital financing subsequent to FY 1978, and the need to rearrange the front-loaded, high-cost debt structure of the City and MAC.

Mayor Beame's people believe quicker Carter's action is required -- how much quicker is unclear.

One key Mayoral adviser insisted yesterday that you endorse credit guarantees by Christmas. Mayor Beame was less specific in his conversation with me today, indicating that rapid action was required, but avoiding a specific deadline. In a private meeting with Howard Rubinstein, the Mayor's chief political adviser, I reflected my own concern that as President-elect there was little you could do, and he was sensitive to the importance of not trying to force your hand.

The Mayor understandably wants to capitalize on the court's decision to move toward a resolution as long before the mayoralty primary as possible. But part of his campaign will be based on his special relationship with you, and Howard Rubinstein indicated that consequently he would never try to force your hand publicly. I will keep you informed.

4. Secretary of Treasury. Given the absence of emergency conditions, your Secretary of the Treasury-designee should attend your meeting with Governor Carey and Mayor Beame. Any solution to New York's crisis should be evolved under his direction. Options are broader than those under discussion -- factors such as welfare reform should be considered.

I will gather information and will forward an outline of the financial and legal picture later in the week, unless there is anything you want immediately.

Should I copy Messrs. Kirbo, Lipshutz or Lance on this subject? I am told that you mentioned the possible involvement of Messrs. Kirbo and Lipshutz to the Mayor, and Bert and I discussed the subject last fall.

file

U/S
J

MEMORANDUM

TO: PRESIDENT-ELECT CARTER
FROM: ECONOMICS TRANSITION TEAM *Jasirowski*
RE: RELEASE OF ECONOMIC INDICATORS
DATE: NOVEMBER 22, 1976

AS YOU REQUESTED, BELOW IS THE LIST OF PRINCIPAL ECONOMIC INDICATORS AND THEIR RELEASE DATES FOR THE REMAINDER OF NOVEMBER AND FOR DECEMBER. (UNLESS OTHERWISE NOTED, THE DATA RELEASED ARE FOR THE MONTH OF NOVEMBER.)

NOVEMBER 24: PRODUCTIVITY AND COSTS FOR THIRD QUARTER

NOVEMBER 30: LEADING INDICATORS FOR OCTOBER
(THIS SERIES DROPPED IN BOTH AUGUST AND SEPTEMBER)

DECEMBER 3: WHOLESALE PRICE INDEX
EMPLOYMENT SITUATION

DECEMBER 10: ADVANCE RETAIL SALES

DECEMBER 15: INDUSTRIAL PRODUCTION (THE THREE PRECEDING SERIES
WILL GIVE US AN IMPORTANT EARLY INDICATION OF
4TH QUARTER GNP)

DECEMBER 16: HOUSING STARTS

DECEMBER 21: DURABLE GOODS ORDERS
CONSUMER PRICE INDEX
REAL EARNINGS

DECEMBER 29: LEADING INDICATORS

These two go to Orin Kramer
Policy Analysis Cluster
Transition Planning Group
HEW Building
202/472-5325

COWE - BACK 10

WEIL, GOTSHAL & MANGES
M E M O R A N D U M

TO: Governor Carter
FROM: Orin Kramer
RE: New York City

November 21, 1976

Orin
Q

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Through your statements and the presence of a staff person, you have conveyed the perception of concern and a willingness to work toward a solution. The maintenance of a cooperative atmosphere is adequate for the moment. Based on foreseeable circumstances, there is no need for visible Presidential or federal intervention prior to the Inaugural, for the following reasons:

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Agree

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Yes
J

MEMORANDUM - November 24, 1976

TO: Governor Carter

FROM: Orin Kramer

RE: New York City Update

Orin -
a) Prefer delay in mtg - James ok
b) Banks & others must continue participation
c) Local 1st priority
d) Treas Sec desig. should attend mtg -

1. Governor Carey and Mayor Beame have now publicly re-jected seeking federal aid before local remedies have been exhausted. In addition, the successful plaintiffs (the noteholders) say they want to work out a "reasonable" payout schedule with city attorneys. We are toying with an arrangement whereby the city would pay off part of the \$1 billion in notes by giving noteholders MAC paper.

These developments eliminate the pressure for immediate action on your part. While Mayor Beame would still prefer to meet with you quickly, he understands that present circumstances do not require an immediate meeting, and that you conceivably might want to include your Treasury Secretary. The Mayor would understand a decision to meet shortly before Christmas.

An earlier meeting would, in my judgment, intensify the crisis atmosphere and increase media pressure for a federal response -- at a time when tension is subsiding, we are gathering the facts and trying to slow down the process. I am assuming that, barring an unforeseen emergency, you do not want to begin your Administration with New York legislation.

If you prefer a meeting shortly before Christmas, Mayor Beame would appreciate a phone call to reflect your continued interest. Carey had indicated no concern about the meeting date but should be called. If such calls are made, I suggest the following points:

a. Your concern that the Treasury Secretary-designee attend the meeting and be intimately involved from the earliest stages.

b. Your appreciation of their efforts to seek local help and their cooperation in providing information.

c. Ask for their assessment of the situation.

2. Although Mayor Beame and his advisers moved slowly on this point, both parties are now sensitive to the impropriety of using an unclear court decision to manufacture a crisis requiring your immediate action. Mayor Beame was concerned that you know that while he believes federal assistance is ultimately necessary, he wants to explore all other options. To that end, he asked me to pass on that he had me meet with the chief pension leader, Jack Bigel, to discuss what role they might play in the absence of federal help. The meeting was inconclusive.

The self-help posturing aside, forging a \$1 billion local solution without a request for federal aid is unrealistic. The city can't do much beyond meeting the new debt-service payments that will be incurred. The state, which faces a \$700 million deficit for FY 78 of its own, can do little. (In fact, although it is not public, the state will close its deficit by cutting \$200 million in aid to the city, which will precipitate a major state-city crisis.) MAC will play a role. The other substantial potential lenders are the banks and union pension funds. Neither will participate heavily until either a) there is the prospect of additional federal aid to help secure their new investments, or b) there is clearly no possible federal aid, with bankruptcy the only alternative.

Given the early stage of negotiations, the pension leaders have sounded cooperative, but further pension participation would require up to a 30% liquidation of assets.

The banks have taken a hard line. They object to providing further funds and even oppose trying to negotiate any stretchout on repayments of the notes which were subject to the moratorium. They want an immediate crisis and quick federal bailout.

Even assuming federal action, Congress will not act without some front-end money from New York, which requires at least some bank participation. Governor Carey and Rohatyn are concerned about this. It might help if, in discussions with the banks, I indicated that you felt comfortable with the Carey-Beame position that local assistance should be sought before Washington is approached. The necessary implication is that the parties that have cooperated in the past would hopefully continue to do so. The most generous federal solution will require some bank participation. While that needn't be stated directly, unless you wish, we needn't precipitate our own crisis by encouraging unrealistic thinking. ok

In any event, the banks will be pressured toward a more active role by the passage of time and the political fallout of an SEC investigation which will report within two months on the banks' role in dumping city securities on the basis of inside information.

3. I will prepare a broad substantive memo for your review within three weeks. Much of the information I have requested will not be available before December. If you want information on the bits and pieces as I receive them, I will, of course, oblige.

MEMORANDUM

TO: PRESIDENT-ELECT CARTER
FROM: STU EIZENSTAT, JERRY JASINOWSKI, BILL KEEL
RE: STEEL PRICE INCREASE
DATE: NOVEMBER 29, 1976

*Hold any
further
statement
J
called 9/16
11/3/76*

NATIONAL STEEL ON NOVEMBER 24 ANNOUNCED PRICE INCREASES ON SHEET STEEL PRODUCTS OF SIX PERCENT AND SUBSEQUENTLY SEVEN OTHER MAJOR COMPANIES ANNOUNCED SIMILAR INCREASES. THESE ARE U.S. STEEL, JONES AND LAUGHLIN, BETHLEHEM, ARMO, WHEELING-PITTSBURGH, INLAND AND YOUNGSTOWN SHEET AND TUBE. STEEL COMPANY SPOKESMEN GAVE AS THE REASONS FOR THE INCREASE RISING COSTS AND POOR PROFIT MARGINS IN THE PRODUCTION OF SHEET STEEL. THIS IS THE SECOND TIME THEY HAVE ATTEMPTED TO INCREASE PRICES THIS YEAR. *

THE COUNCIL ON WAGE AND PRICE STABILITY AFTER THE ANNOUNCEMENT BY NATIONAL STEEL SAID IT WAS INITIATING AN IMMEDIATE STUDY OF THE ACTION AND REQUESTED PRODUCTION, COST, PROFIT AND ANTICIPATED SALES DATA FROM NATIONAL. A REPORT ON ITS FINDINGS IS EXPECTED IN THE NEXT FEW DAYS.

ECONOMIC BACKGROUND :

THE STAFF OF THE COUNCIL ON WAGE AND PRICE STABILITY REPORTS (CONFIDENTIALLY) THAT THE STEEL INDUSTRY IS IN POOR ECONOMIC CONDITION, WHICH TENDS TO CONFIRM THE STATEMENT OF A STEEL SPOKESMAN THAT "WE HAVE GOTTEN TO THE POINT THAT WE CANNOT GIVE IT AWAY ANY MORE."

*THE STEEL COMPANIES DID SUCCESSFULLY INCREASE PRICES FOR THESE PRODUCTS ABOUT 6 PERCENT IN JUNE OF THIS YEAR.

FOLLOWING ARE THE FACTORS CITED TO US BY THE COUNCIL STAFF AS JUSTIFICATION FOR THE PRICE INCREASE:

- COSTS UP AND PROFITS DECLINING BELOW THE AVERAGE FOR MANUFACTURING;
- THAT THE STEEL INDUSTRY ANTICIPATES STRONGER DEMAND IN THE MARKET NEXT YEAR BASED ON ADVANCE BOOKINGS. THE INDUSTRY CONTENDS THE EARLIER PRICE INCREASE FELL THROUGH BECAUSE OF INVENTORY ACCUMULATIONS AND THAT THESE INVENTORIES HAVE BEEN WORKED OFF NOW. INDUSTRY CONTENDS IT WANTS TO "GET EARNINGS BACK TO A LEVEL WHERE THEY BELONG.";
- BECAUSE OF STEEL'S POOR ECONOMIC CONDITION, AN INCREASE MAY BE INEVITABLE WITHIN A SHORT PERIOD OF TIME.

ON THE OTHER HAND, THEY CITED SEVERAL REASONS WHY THE INCREASE WAS NOT JUSTIFIED AT THE PRESENT TIME:

- DECLINING PRODUCTION AND DEMAND WITH INDUSTRY SHUTDOWNS AND LAYOFFS IN THE SAME PLANT;
- THAT THE ECONOMIC RECOVERY WAS WEAK AND THAT THE DEMAND FOR STEEL WAS NOT STRONG ENOUGH TO SUPPORT A PRICE INCREASE;
- THAT THE STEEL PRICE INCREASE WOULD FURTHER ACCELERATE INFLATION IN SUCH AREAS AS AUTOS, WHICH WOULD DECREASE CONSUMER SPENDING ON THESE ITEMS, AND FURTHER RETARD THE ECONOMIC RECOVERY; AND
- FOR THESE REASONS THE STEEL PRICE INCREASES MAY NOT HOLD.

IT IS SUGGESTED THAT SINCE THE COUNCIL ON WAGE AND PRICE STABILITY IS PLANNING A REPORT SOON THAT YOU MAY WANT TO REVIEW THEIR POSITION IN DETAIL BEFORE MAKING ANY DEFINITIVE STATEMENT.

THERE ARE THESE OPTIONS:

1. MAKE NO ADDITIONAL STATEMENT BEYOND WHAT YOU SAID TO WALTER CRONKITE AND LET FORD ASSUME THE FULL RESPONSIBILITY FOR THE INCREASE AND GET THE INCREASE BEHIND YOU SINCE AN INCREASE APPEARS INEVITABLE, IF NOT NOW, WITHIN A SHORT TIME.
2. MAKE A REASONED, TEMPERATE STATEMENT EMPHASIZING QUESTIONS RAISED REGARDING A FREE MARKET, EXPRESSING CONCERN OVER THE INCREASE, AND SUGGESTING THAT BECAUSE OF THE HEAVY IMPACT OF STEEL ON THE AMERICAN CONSUMER, THE STEEL COMPANIES SHOULD RECONSIDER THEIR DECISION IN THE PUBLIC INTEREST.

THE FIRST ALTERNATIVE MAY MAKE POLITICAL SENSE, SINCE THE UNIONS TRADITIONALLY FAVOR THE STEEL PRICE INCREASES AND UNION NEGOTIATIONS WITH THE STEEL INDUSTRY WILL BEGIN IN FEBRUARY. IT ALSO KEEPS YOU OUT OF THESE POLICY MATTERS DURING THE TRANSITION.

THE SECOND ALTERNATIVE IS A MODERATE COURSE THAT PUTS YOU ON RECORD AS A CONSUMER-ORIENTED PRESIDENT AND SIGNALS BIG BUSINESS THAT WHEN YOU ARE IN OFFICE, YOU WILL TAKE A HARD LOOK AT MAJOR PRICE INCREASES PROPOSED BY CONCENTRATED INDUSTRIES. THIS WILL ALSO REAFFIRM YOUR BELIEF IN A FREE MARKET.

IT IS OUR FEELING --

THAT ANY ADDITIONAL STATEMENT BEYOND WHAT YOU HAVE ALREADY SAID SHOULD AWAIT THE REPORT SOON BY THE COUNCIL ON WAGE AND PRICE STABILITY. MOST OF THE ECONOMISTS WE HAVE CANVASSED HAVE SUGGESTED A TEMPERATE STATEMENT WOULD BE USEFUL TO SHOW YOUR CONCERN.

-- THAT PRESIDENT FORD AS A MATTER OF COURTESY MIGHT BE ADVISED OF ANY FURTHER STATEMENT TO AVOID ANY APPEARANCE OF DISAGREEMENT OR FRICTION DURING THE TRANSITION.

-- THAT IF YOU DO ISSUE A STATEMENT THE SECOND ALTERNATIVE WOULD BE THE BETTER APPROACH. A DRAFT STATEMENT IS ATTACHED.

NOTE: KEN McCLAIN, STAFF DIRECTOR OF BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE IN SENATE, SUGGESTS YOU COME OUT NOW FOR LEGISLATION TO REQUIRE PRE-NOTIFICATION OF SUCH PRICE INCREASES AND FOR A 60-DAY "COOLING OFF" PERIOD TO PERMIT STUDY AND PUBLIC HEARINGS.

THIS SENATE BANKING COMMITTEE IS PLANNING HEARINGS ON THE STEEL INCREASES ON DECEMBER 16.

DRAFT STATEMENT

PRESIDENT-ELECT JIMMY CARTER TODAY ISSUED THE FOLLOWING STATEMENT ON THE STEEL PRICE INCREASE RECENTLY ANNOUNCED BY EIGHT MAJOR STEEL COMPANIES:

I AM CONCERNED OVER THE ANNOUNCEMENT BY EIGHT MAJOR STEEL COMPANIES OF A SIX PERCENT PRICE INCREASE ON SHEET STEEL PRODUCTS BECAUSE OF THE CRITICAL IMPORTANCE OF THE STEEL INDUSTRY TO THE NATION'S ECONOMY AND OUR HOPES FOR A HEALTHY, VIGOROUS ECONOMIC RECOVERY.

THE EIGHT MAJOR STEEL COMPANIES CONTROL OVER 70 PERCENT OF THE MARKET AND THE RECENTLY ANNOUNCED INCREASES RAISE QUESTIONS AS TO WHETHER FREE, COMPETITIVE MARKET CONDITIONS WERE BASIC TO THESE DECISIONS, ESPECIALLY IN VIEW OF WHAT APPEARS TO BE THE WEAK DEMAND FOR STEEL PRODUCTS AT THIS TIME. I BELIEVE IT IS VITAL THAT ALL PRICE INCREASES BE JUSTIFIED BY COMPETITIVE MARKET CONDITIONS.

THESE INCREASES IN THE PRICE OF STEEL IF PERMITTED TO STAND WILL TOUCH THE LIVES OF VIRTUALLY ALL AMERICANS BECAUSE STEEL IS AN ESSENTIAL COMPONENT OF SUCH MAJOR ITEMS AS AUTOMOBILES AND ELECTRICAL APPLIANCES. SUCH INCREASES COULD ACCELERATE INFLATION AND HAMPER WHAT IS ALREADY A WEAK ECONOMIC RECOVERY.

PRESIDENT FORD HAS ALSO INDICATED HIS CONCERN AND HAS ORDERED AN INVESTIGATION. I SUPPORT THAT INVESTIGATION. IT SEEMS TO ME THAT ALL BUSINESSMEN SHOULD EXERCISE PRICE RESTRAINT SO THAT WE CAN HAVE A STRONG, NON-INFLATIONARY ECONOMIC RECOVERY.

Gov-

I think we should delete
the first paragraph. It's
unnecessary and my be offensive
to Ford.

GS

Greg phoned corrected
copy to Dick Moe on
12/2/76.

mw

SENATOR MONDALE'S STATEMENT ON THE FRANKFORT ARSENAL RELOCATION

I AM VERY DISAPPOINTED THAT ~~THE DEPARTMENT OF DEFENSE~~
~~HAS ISSUED~~ ^a ~~RELOCATION NOTICE~~ ^{has been issued} TO THE EMPLOYEES OF THE FRANK-
FORT ARSENAL IN PHILADELPHIA. ~~AS THE DEFENSE DEPARTMENT~~
~~KNOWS~~, I HAVE PUBLICLY PLEDGED TO TRY TO KEEP THE FRANKFORT
ARSENAL OPEN. THIS ^{notice certainly makes} ~~ACTION~~ ~~UNDERMINES~~ THAT COMMITMENT BY
THE ~~NEW ADMINISTRATION~~. ^{very difficult, but I will still}
^{do my best.}

UNTIL JANUARY 20, OF COURSE, THE FEDERAL EXECUTIVE
ACTIONS REMAIN THE LAWFUL AND EXCLUSIVE RESPONSIBILITY OF
THE PRESENT ADMINISTRATION. THE NEW ADMINISTRATION DOES
NOT HAVE THE AUTHORITY TO MAKE EXECUTIVE DECISIONS UNTIL
IT TAKES OFFICE. I AM AUTHORIZED, HOWEVER, TO STATE THAT
THE NEW ADMINISTRATION, WHEN IT TAKES OFFICE, WILL FULLY
REVIEW THE MATTER OF THE FRANKFORT ARSENAL RELOCATION, AND
FURTHER, ~~THE NEW ADMINISTRATION~~ WILL TAKE WHATEVER STEPS
ARE ^{POSSIBLE} ~~NECESSARY~~ TO FULFILL OUR COMMITMENT TO THE EMPLOYEES
OF THE FRANKFORT ARSENAL.

MEMORANDUM - December 2, 1976

TO: GOVERNOR CARTER
FROM: STU EIZENSTAT
RE: SUMMARY OF ECONOMICS BRIEFING IN PLAINS

I. Outlook

A. Growth-Budget

1. Real GNP growth for the year will only be in the neighborhood of 4-4½%, much less than expected only 6 months ago. Economic growth has taken a continuous tailspin during this year: 9% in the first quarter, 4½% in the second quarter; 3.8% in the third quarter; and most probably under 3.8% for the last quarter.

2. Real income has been flat, anticipated investment is not as much as it should be and a need for a rise in personal income is necessary for a consumer resurgence. Using Arthur Oken's figures, to get unemployment down 1% the economy must grow by 7%, which it is nowhere near doing.

3. If the 6% steel price increase holds, it will add .2% to .3% to the Consumer Price Index. Similarly, a 10% increase in OPEC prices would add roughly .3% to the Consumer Price Index. If there is a 10% OPEC price increase this would mean that the American people would have to spend \$3 billion more this coming year for petroleum than they otherwise would, thereby taking this amount of money away from consumer spending and the American economy, sending it abroad. In addition, demand for our exports would lessen in the rest of the world

because of the fact that they likewise would have to spend more on petroleum and this would add to the reduction in GNP. Mr. Schultze and Mr. Klein agreed that a 10% OPEC price increase would take away .4% from GNP growth.

4. The slowdown in the United States economy has spread to Western Europe and Japan and they are looking to us to help them revive their own economies. The world outlook is likewise cloudy and uncertain. The devaluations by Australia and Mexico cause concern that a wave of protectionism may be upon the world without firm leadership from the United States. The floating rate system of international exchange has not entirely avoided devaluations because so many other factors affect currency rates including the role taken by central banks in various countries who prop up their currencies. The debt already incurred by the LDC's (less developed countries) is reaching its maximum level. They will be particularly hurt by an OPEC price increase and some cannot borrow more.
5. In the business sector, businessmen are very cautious about acquiring any sizeable inventories,

and are not making investment decisions because they were hurt so badly by the previous recession and continue to be concerned about the scope of the recovery.

6. The lack of strength of the recovery is shown by the fact that we are still below the peak of industrial production that we had 18 months ago.
7. In regard to the budget, for FY 1976, the Administration spent \$7.7 billion less than was legally appropriated, \$6.7 billion of that coming in the transition quarter due to misestimates of the costs of programs like unemployment compensation, and misjudgments on interest rates and because of delays in federal spending. This in and of itself had a substantial adverse economic impact although it does not explain entirely the poor performance of the economy. The revenues will be \$5-10 billion less than the \$362 billion meaning that the deficit will go up from the expected \$50 billion to \$55 to \$60 billion. (Politically, this would mean that with revenues lower than expected, a tax cut would make the deficit up to \$75 billion)

8. On monetary policy the outlook for the future is that for the next 6-7 months the Federal Reserve will pursue a policy of "relative ease" with no substantial changes in interest rates expected. Apparently the Federal Reserve has decided that the economy needs additional stimulus.

B. Inflation

1. Mr. Dunlop stated that 10% wage and fringe benefit packages (6-7% in wages and the rest in fringe benefits) would likely prevail on certain major industry-wide negotiations in this coming year. He mentioned steel, paper and construction as being major industries with major contracts up for negotiation, with coal being the major problem. It comes up for negotiation at the end of the year in 1977.

II. Suggested Action Which Had Unanimous or Near Unanimous Approval

1. One of the most important ingredients of an economic recovery was business and consumer confidence. This could be accomplished by the following steps:
 - a. a predictable and consistent long-range economic policy which was explained publicly to the American people.
 - b. clear goals toward which this country could reasonably aspire.
2. Because of the great uncertainty caused by the fear that wage and price controls, even stand by controls,

might be imposed, you should state the following:

"I have absolutely no intention of imposing or seeking authority to impose wage and price controls, except under conditions of national emergency, which I have no reason to expect will occur, nor do I intend to seek authority for standby controls."

You will remember that the consensus seemed to be that even seeking standby controls would lead to an air of uncertainty and, indeed, to some extent would lead to the worst possible situation since it would be unclear as to when they would be imposed. I believe it was the consensus that you should issue this statement as early as possible, including during the transition.

2. There was a consensus that there should be no wage and price controls and that no "deal" could be worked out between labor and management which was effective. There was a sharp division of opinion represented by Mr. Okun on one side and Mr. Dunlop on the other. Mr. Okun felt that we should move toward the recreation, as in the early 1960's, of specific published wage and price guideposts and then attempt to

obtain voluntary compliance by industry and labor toward those guideposts.

Mr. Dunlop on the other hand felt that private discussions without any specific published guideposts could do the job more effectively.

3. We need better tracking by the federal government of our federal expenditures. The economy suffered because the federal government did not appropriately track expenditures, significant amounts of money that were legally appropriated were not spent, and the economy suffered as a result.
4. If the economy continued during the last quarter of this year in the direction it is now headed, there is no question but that an economic stimulus will be needed. This could be accomplished without increasing inflation because there is so much slack in the economy. For example, Mr. Heller stated that models demonstrated an 8% real GNP growth in 1977 (which he indicated could not be accomplished) would reduce unemployment from its current level near 8% to 6½% with only a .2% increase in inflation. However, it was felt that since

there was a public psychology that a rapid stimulation would cause inflation, even though it should not, and 'since this psychological element could itself have an inflationary impact, it was important that if and when a stimulus package was announced you make it clear that with it would come a strong policy of seeking voluntary restraints on wages and prices.

5. The elements of such a stimulus package could include the following:

a. a temporary tax rebate (not a temporary tax cut since such a temporary cut, as has usually been the practice, would become a permanent cut and would therefore reduce future revenues needed for national health insurance and other such programs.)

Mr. Heller pointed out that we have a \$2 trillion economy and that a \$15 billion tax rebate would in no sense be inflationary, particularly with the slack in the economy. He further pointed out that it was less than half in real dollars of the one in 1964.

- 1001

Mr. Klein stated that if the fourth quarter figures were between 3% and 4%, the unemployment rate was no better than 7.7% - 7.9%, new orders remain sluggish trade balance is bad, and other factors such as the length of the work week, the failure rate of businesses, and the layoff rate did not markedly improve such stimulus by tax cut was necessary. He did state that you ought to maintain your options on such a tax rebate due to a possible turnaround in the auto market or a great Christmas surge.

b. It was generally felt that the tax rebates in the first quarter of the year should be joined with other stimulative action. For example, Mr. Clausen recommended a tax cut in the second quarter. The tax package should be both for individuals and for businesses.

c. The stimulative package should likewise include some \$3-5 billion which should be divided up on job programs, public works programs, counter-cyclical revenue sharing and other programs aimed directly at reducing unemployment, since tax cuts did not have a direct but rather only an indirect impact on unemployment. Both Mr. Okun and Mr. Schultze, as well as others, were concerned if a one shot tax rebate were the only stimulus that this would not be enough to restore confidence in the economy since both consumers and businessmen were looking for a long-term signal. They, therefore, suggested that it be viewed as part of an overall stimulative package which would stretch out beyond the first quarter of the year. There was

also strong feeling that some stimulation in the housing industry should be part of the initial stimulus package, such as a lower down payment and a stretch out of monthly payments.

d. The tax rate rebate should be a refundable tax rebate so that low income families with little or no tax would receive a cash payment.

e. For businesses a beef up in the investment tax credit would be the best form of stimulation.

Mr. Blumenthal suggested that the benefit be concentrated in a short period of time, so that businesses would not sit back and wait but would make immediate expansive decisions. Therefore there would be a tax rebate for individuals and a tax stimulus in the form of an increased investment tax credit for industry.

f. It was suggested that a Youth Service Corps and an expanded CETA program should be part of the stimulus package and would help get directly at the unemployment problem, together with incentives to private industry to hire the unemployed.

In summarizing the elements that a stimulative package should have Mr. Schultze stated that it should contain the following: It should provide a quick and effective stimulus; it should be a part of a move to promote a long-term recovery; it should avoid prejudicing as much as possible future maneuverability;

it should provide \$2-5 billion for positive programs on unemployment. Mr. Schultze pointed out that while a permanent tax cut would add more to consumer and business confidence than would a temporary tax rebate that it would substantially limit your maneuverability in the future in terms of revenues.

6, On New York City, Mr. Clausen and Mr. Roosa suggested a federal lending institution that would be a lender of last resort, but with very rigid requirements so that cities would not be encouraged to rely on it. This would help New York City stretch out its debt. The general consensus was that New York City had done as good a job as it could to cut waste and reduce unnecessary public employment and that any further cuts in this fashion would only be counter-productive. There was a general consensus that New York City could not be permitted to go bankrupt, but because of its symbolic and economic impact. They pointed out that the current federal program was too short term in its nature, plus that due to the recent court decision and other factors, additional debt had been added. New York City could not do more for itself than it had done (although it must continue to

hold the line) and the federal government must step in -- although not with federal guarantees of their bonds.

7. On Britain and Italy it was felt that the United States could not permit either country to go under. The IMF should be encouraged in a positive way by the United States to provide assistance to both countries and Germany in particular should be encouraged to do as much as possible to assist Italy.

8. On the LDC's, it was felt that any further retrenchment by them would be bad, not only for themselves, but for the developed countries from whom they purchase and for the world economy in general. However, a debt moratorium was not the answer but rather a stretchout of the debt burden through the International Monetary Fund and the Export-Import bank. The creditor countries should get together and agree on a stretchout of the debt. Mr. Cooper stated that it was important that the United States not lecture the LDC's and not be hostile toward the IMF and export-import bank.

McGEORGE BUNDY
320 EAST 43RD STREET
NEW YORK, N. Y. 10017

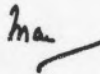
December 3, 1976

Dear Governor Carter:

I had a good talk with Charles Kirbo yesterday, and I have just sent him the enclosed brief report on my exploration with General Brown and General Gard. The tabular comparisons you asked for appear at the next to the last page.

The Vance appointment is first class, and incidentally Cy is one of the people who would understand this problem best and quickest -- if you have not put too much else on his plate already.

Sincerely,



McGeorge Bundy

The Honorable Jimmy Carter
The President-elect
Box Z
Plains, Georgia 31780

McGEORGE BUNDY
320 EAST 43RD STREET
NEW YORK, N. Y. 10017

December 4, 1976

Dear Mr. Kirbo:

Here is the memorandum I mentioned on the telephone yesterday. It is an effort to respond to Governor Carter's request for a sense of the reaction of General Brown and General Gard to my oral description of the Notre Dame Study Proposals. It should not be taken as more than a tentative indication of military reaction because both Brown and Gard were talking informally and without staff work.

I entirely understand your first reaction to the complications of this problem: pardon them all. If pardons would do it on the military side, I would be with you 100%. Unfortunately it is the bad discharges that are the real problem in terms of their effect on people's lives and they are genuinely hard to handle. That is why the Notre Dame Study has impressed me -- it is the best effort I have seen to find middle ground in a field where neither "case by case" nor total amnesty seems really fair.

If there is any way in which Ted Hesburgh and I can help further in this matter, we are at your service. He can always be reached through Notre Dame, and I am usually here at 212/573-4700 or at home (unlisted) 212/861-0359.

Sincerely,

McGeorge Bundy

Mr. Charles Kirbo
2500 Trust Company Tower
Atlanta, Georgia 30303

Preliminary Military Reactions to Notre Dame Study Proposals
on Military Offenders in Different Discharge Classes

Conversations with a few military officers (especially General George Brown, Chairman of JCS, and Major General Robert Gard, Commander, U.S. Army Personnel Center) suggest that there is a strong disposition on the part of the senior military to "get Vietnam behind us." There is no desire to pursue Vietnam offenders out of resentment or pique. The three criteria against which the military tend to measure proposals for pardon or for lenience are:

- (1) Would the action undermine present discipline or morale within the Service? I get the impression that most moderate actions would not be thought to have this effect.
- (2) Would it affect the authority of the Government in a future mobilization involving a new draft? This problem is not currently regarded as very serious.
- (3) Is it fair -- especially to those not included? This is the hardest question and is what underlies objections to blanket upgrading of discharges.

On Draft Offenders

The military have no serious difficulties with Governor Carter's proposals as they stand so far. The pardon of Vietnam draft evaders is expected. It is suggested that here as elsewhere general acceptance in Congress and in veterans groups will be increased if the eventual decision takes place after consultation between the President and the Chiefs, but it is clear that such consultation would produce no major objection, whatever the precise form of program: blanket pardons for all, pardons with a decision not to prosecute any who might reject a

pardon, or blanket pardons only for those who have been convicted and a decision not to prosecute others.

On Military Offenders

The military temperamentally prefer a policy of treating military offenders case by case. That is what they are doing now. General Brown and General Gard both emphasize their belief that the current practice of Discharge Review Boards is lenient, leading to upgraded discharges in about 35% of the cases brought forward. (35% is obviously more "lenient" in the generals' eyes than in those of the believers in amnesty.)

When pressed, however, both Generals agree that the current process is inadequate, primarily in that it depends on the initiative of the affected individuals, usually assisted by counsel, so that in the nature of things the Boards are not reaching many of those that may need help the most. Moreover the Generals seemed to recognize that this case-by-case process may well fail to "put Vietnam behind us," in that it withholds from all military offenders the general "put-it-behind-us" approach that is in prospect for draft offenders.

General Brown and General Gard took considerable interest in the preliminary recommendations that I described from the Notre Dame Study, which argue a need for action that falls between "blanket pardons-and-honorable-discharges-for-all" and the present "case-by-case" response only to specific appeals. The table on the next page shows in skeleton form the study's recommendations and the Generals' reactions.

TABLE 1

CLASSES OF DISCHARGE

<u>Class of Discharge</u>	<u>Notre Dame Study Proposal</u>	<u>General Brown's Reaction</u>	<u>General Gard's Reaction</u>
<u>A. Discharges in Honorable Conditions</u>			
1. Honorable Discharges (8,000,000)	No action needed	Agreed	Agreed
2. General Discharges (300,000) (these two discharges carry eligibility for veterans' benefits)	No new action recommended-- the disadvantage of this dis- charge is moderate, and case- by-case review of appeals will suffice.	Agreed	Agreed
<u>B. Other-than-Honorable Discharges</u>			
3. Undesirable Discharges (210,000) (an administrative discharge where the records are skimpy and hard to judge case by case)	General Upgrade to General Discharge, with only se- lected classes eligible for veterans' benefits. General Upgrade necessary because the skimpy records do not permit fair case-by-case judgment.	Too sweeping, but aimed at a real problem. Seems unfair to those who served before and after Vietnam and do not get this upgrade. Could we define classes of men that deserve this (e.g., the 50,000-odd who served in Vietnam) and classes that don't (e.g., "persistent troublemakers")?	Similar
4. Bad Conduct Discharges (30,000))	Active case-by-case review without awaiting appeals, under Presidential Guide- lines directing pardon and upgrading to General Dis- charges except for aggravated absence offenses and felonies.	No objection to active case- by-case process as such. No direct discussion of guide- lines, which would probably seem too lenient, especially as they may neglect the problem of "persistent troublemakers."	Probably the same
5. Dishonorable Discharges (2,000)) (4 and 5 are products of a special) or general court-martial; sub-) stantial records exist))			

There are obvious and significant differences here, but I think no unbridgeable gap of either purpose or process. Left to themselves the military will gradually get more lenient, as they have over the last five years. The adoption of the Notre Dame recommendations unchanged would today be opposed and resisted, but not to the point of showdown. What may be particularly interesting is the Generals' acceptance of the notion that it is not enough to sit back and await case-by-case applications. In this situation one possible means of making progress is that at some early stage perhaps even before Inauguration Governor Carter might arrange a joint review of these issues between his people and the Joint Chiefs. I do not think such a review would lead to polarization simply because the issues are no longer critical to the military. Obviously the Notre Dame report is not the only input for such a review; it is probable that more sweeping proposals are being put before the transition staff, and these too deserve study.

In summary, and jumping to a major conclusion, I believe that Governor Carter can do whatever he decides is nearest to fairness, and best for the whole country, and that any military opposition can be reduced to a moderate and acceptable level by a genuine process of consultation and by a direct face-to-face request for understanding and support of whatever the Commander-in-Chief decides.

December 3, 1976

**CARTER - MONDALE
TRANSITION PLANNING GROUP**

P.O. Box 2600
Washington, D.C. 20013

*Stay out of it.
I will be involved -
✓ Sec Treas & I*

*Maxie - copy to
Orin - index*

MEMORANDUM - December 11, 1976

TO: President-elect Carter
THROUGH: Greg Schneiders
FROM: Orin Kramer
RE: New York City: Proxmire Hearings

Senator Proxmire has decided to hold Banking Committee hearings on New York City on December 20 and 21. The stated purpose is to review the implications of the moratorium decision and to perform the Committee's oversight function. According to Committee staff, the real objective is to issue a hard-nosed report: that the city and local parties can raise the \$1 billion to pay the noteholders, and that the city can and should adhere to the present financial plan. The hearings will be publicly announced early next week.

Our strategy has been to encourage a local resolution of the billion dollar problem while we develop an urban economic approach and consider marketing assistance alternatives over the longer term. Thus the problem is not with the Committee's anticipated conclusion -- that the \$1 billion can be raised locally -- but with the timing and unsympathetic tone of the report, for the following reasons:

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1. The financing negotiations are at a sensitive stage and are difficult, involving increased legal and financial risks for the banks and unions as they accumulate more city-related securities. The success of the negotiations depends in part upon the belief of the contributing parties that New York has a sympathetic federal partner. The banks and unions are more likely to act if they perceive that the new President and Congress will attempt to secure their new investment -- not necessarily through credit guarantees, but at least through a long-range federal urban strategy. A hostile Congressional report, although not technically inconsistent with a strong urban policy, would undermine the present climate of cooperation and jeopardize negotiations.

2. Circumstances will force all three New York witnesses-- Governor Carey, Mayor Beame and Rohatyn -- to be evasive. Governor Carey can't discuss the State budget until the State Legislature sees it January 5. Mayor Beame can't discuss the City budget until he presents it December 31. Felix Rohatyn can't discuss ongoing refinancing negotiations. Again, bad timing.

The mayor is very concerned, and Governor Carey and Rohatyn unsuccessfully tried to convince Proxmire to delay the hearings one month. There are three options:

1. Do nothing.

2. You might call Senator Proxmire. I would advise against this. If your involvement becomes public, you could be perceived as being soft or interfering with an appropriate Congressional oversight function.

3. I call the Committee staff and express my (not your) view that hearings might be more constructive a month from now. This may not work but would reduce your exposure

I recommend that you choose the third option.

ROUTINE

PRECEDENCE

UNCLAS

CLASSIFICATION

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FROM: Maxie Wells, Plains
TO: Mr. Orin Kramer
Transition Planning Group
HEW Building
Washington, D. C.

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SPECIAL INSTRUCTIONS:

BEST COPY AVAILABLE
DELIVER O.O.B.

Orin:

I'm returning this so you can see JC's comment
(upper right hand corner).

Maxie

Memorandum for the President-elect

December 13, 1976

From: Charlie Schultze
Subject: The Economics of a Recovery Program

*Good memo
cc: Lance
Blair
J*

You have too much to read already. Nevertheless, this memo may be useful as background for later discussion of recovery options. It lays out a few of the economic principles for a recovery strategy.

I. There are three aspects to increasing employment:

1. For sustained economic recovery we want people put into normal productive jobs turning out private products and useful governmental output of a non-make-work kind

- . about 5 out of every 6 existing jobs are in the private sector; unless the share of government jobs is to be permanently expanded, about 5 out of every 6 new jobs generated by economic recovery must be in the private sector.
- . the 1 out of 6 new jobs in the public sector ought, as much as possible, to be devoted to government services that are desirable for their own sake.

I agree

2. Even in the long term some special public service jobs may have to be created for those who simply cannot find any decent jobs elsewhere. But the number of such jobs need not be huge.

3. In the depths of a recession—like now—some temporary public service jobs are needed as a stopgap, until the regular private and public jobs develop. But ultimately we want to put the unemployed back into their regular, productive private or public jobs. Unemployed carpenters, electricians, or assembly line workers should get back into those kinds of well-paying jobs.

II. Businessmen will hire additional workers only if the output produced by those workers can be sold.

- . the first requirement for recovery, therefore, is measures which increase business sales—consumer goods, machinery, exports, sales to government.
- . subsidies to business to hire additional workers will not do much to increase total employment; if you can't sell the

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Memorandum for the President-elect

December 13, 1976

output produced by the added workers, why hire them even with subsidies? (subsidies might be used with great effect to induce businessmen to change the pattern of hiring so as to take on more young people and disadvantaged groups, but subsidies won't increase total hiring substantially.)

*Still like
the idea of
reduced
over time when
possible*

III. Tax cuts to consumers, additional federal spending, and easy money generate additional business sales:

- . not all, but a large fraction of the tax cuts will be used to increase consumer purchases; additional workers will be hired to produce those goods; they in turn will use their new paychecks to step up their own purchases; and so a multiplied increase in sales and employment will ensue;
- . the workers hired to carry out government programs—either public service employment or regular programs—use their income to buy consumer goods, and this also will lead to a multiple chain of purchases → hiring → purchases;
- . easy money can reduce interest rates, and then prevent them from rising in the early stages of a recovery, thereby encouraging added sales of housing, plant and equipment, and consumer durables.

IV. It is true that you get more additional employment from \$1 billion of public service employment than from \$1 billion of tax cuts or \$1 billion of "regular" public spending, but the apparent "more bang for a buck" advantage of public service employment can be misleading if not interpreted carefully.

- . wages in public service employment are relatively low; more people are hired per \$1 billion of federal stimulus
- . some fraction of a tax cut is saved and not spent; when consumer spending does rise, business firms meet some of their additional production needs from increasing hours of work and from higher productivity rather than from hiring new workers; there are, therefore, some "leakages" between the tax cut and additional employment. But some added employment does occur, and it starts the multiplier, chain-effect described earlier.

Memorandum for the President-elect

December 13, 1976

- . ultimately, however, we want people employed on regular productive jobs, at good pay, and at about a 5 to 1 ratio of private to public jobs. We don't want unemployed machinists, or salesmen, or pipefitters, permanently stuck in the low pay, low productivity, emergency, public service employment; eventually we have to get the economy ticking over on its own.

VI. Once we can get the economy ticking over normally, and growing nicely, with about the "normal" proportion of public and private sector growth, it has some built-in properties of its own to keep growth going, without continued deficit stimulus:

- . growing sales to consumers, exports, and government begin to use up the existing idle capacity in plants, factories, etc.;
- . as the need for additional capacity appears, business firms increase their purchases of new plants and equipment, which creates new sales and jobs in the machinery and construction industries; these new jobs add still further to consumer incomes and consumer purchases, which requires still further additions to capacity, and so the process continues;
- . as profits and confidence grow, business firms increase investment, not only in additions to capacity but for purposes of raising productivity and cutting costs;
- . since most investment decisions imply business commitments for 10 to 40 years into the future, recovery measures must be seen as more than a flash-in-the-pan; to get sustained recovery, business has to believe there will be sustained recovery; there are, of course, other aspects to business confidence, but the expectation of steadily growing sales is very important.

VII. While the prime need for long term self-generating recovery is to get sales rising, and thereby set in motion the sales → output → hiring → income → sales chain, the other two aspects of recovery programs can also be carried on:

- . some temporary public service employment as a stopgap, since the fundamental recovery process takes time;
- . beginning to design, develop, and put in place improved longer term manpower policies to integrate the disadvantaged and the hard-to-hire into the normal productive economy.

Memorandum for the President-elect

December 13, 1976

VIII. The most important message of this memo is that business firms will hire workers only if their sales expand sufficiently to absorb the added output which the new workers produce. Fiscal and monetary stimulus must aim, directly and indirectly, at expanding those sales, and creating a climate in which the expansion is expected to continue.

1mm
PRECEDENCE

Unclass
CLASSIFICATION

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FROM: Maxie Wells, Plains
TO: (Personal Secretary to
Governor Carter)

The Honorable Michael Blumenthal
The Honorable Charles Schultze

INFO:

RELEASED BY:

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SPECIAL INSTRUCTIONS:

Comm. Center:

Please send one copy each to Mr. Schultze and Mr. Blumenthal;
I have copied Mr. Lance.

Governor Carter's notes are:

Top right hand corner of page one: "Good memo
cc: Lance
Blumenthal
J"

Right hand margin by number I: "I agree"

Top right margin of page two: "I still like the idea of reduced
overtime when possible"

Dec. 16

JC --

Tom Tatum called yesterday and asked me to give you this message re the status of Title I Local Public Works and Employment Act:

The \$2 billion allocation of funding for public works is being administered fairly for the following two reasons:

- 1) the administrator, George Karres, is a long-time Democrat;
- 2) the guidelines and legislation make it impossible to favor Republican mayors; most of the high unemployment is in cities which have Democratic mayors.

He said Democratic mayors are getting more than their fair share.

He will go to two more meetings on Friday and will send you a detailed memo this weekend.

Maxie

CARTER - MONDALE
TRANSITION PLANNING GROUP

C

*P.O. Box 2600
Washington, D.C. 20013*

December 20, 1976

MEMORANDUM

TO: Bert Lance
FROM: Dennis Green *DG*
RE: Anti-Recession Local Public Works Program

This program was enacted July 22, 1976, at a \$2.0 billion dollar level. The Economic Development Administration (Commerce Department) began accepting applications October 26, 1976, and must complete processing within 60 days. It is expected that most projects will be selected by the Ford Administration by December 22, 1976, and published in the Federal Register December 23, 1976.

To date in excess of \$25.0 billion in applications have been received and evaluated. EDA will prioritize \$5.0 billion of these (according to their criteria). If this program is used as part of the fiscal stimulus package the Carter Administration could select either from the total group submitted (minus those selected), those applications prioritized or request new applications. Requesting new applications would delay project expenditures.

1mm
PRECEDENCE

LINCLAS
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: Maxie Wells, Plains

TO: The Honorable Michael Blumenthal

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SPECIAL INSTRUCTIONS:

To blumenthal
info
J

Jack,

You may want to give this to
Jimmy for his reading on Sunday
night.

Jerry

Richard J. Whalen

November 16, 1976

Dear Dave:

Here is a marked copy of Chairman Burns's University of Georgia speech for Governor Carter's attention prior to their meeting. This is one of the most thoughtful, important and self-revealing speeches Burns ever made. I know because I worked on it with him through several drafts.

In this speech, Burns shows his probing, pragmatic and non-doctrinaire conservatism at its best. The positions outlined in the final pages are much closer to Carter's than to Ford's -- as Burns himself ~~has~~ has remarked. A great deal is riding on how these two men perceive each other and ~~work~~ work together. This is the best introduction I know to the mind of Arthur Burns.

Best regards,

Dick

MARKED COPY

P. 5: NEW CHARACTER OF
INFLATION

P. 7: NEW WAGE + PRICE
PATTERN

P. 8-9: GOVT. EMPHASIS ON HIGH
GROWTH, PROTECTION OF
BUSINESS AND LABOR

P. 11: INFLUENCE OF TRADE +
CAPITAL FLOWS, EXCHANGE
RATES

For release on delivery
Friday, September 19, 1975
8:00 PM E. D. T.

The Real Issues of Inflation and Unemployment

P. 12: KEY POINT - NO TRADEOFF
BETWEEN INFLATION AND
UNEMPLOYMENT

Address by

P. 14: PROPOSALS

Arthur F. Burns

P. 16: ELIMINATE UNEMPLOYMENT -
GOVT AS EMPLOYER OF
'LAST
RESORT'

Chairman, Board of Governors of the Federal Reserve System

P. 17: INCOMES POLICY

at the Blue Key Honor Society Annual Awards Dinner

The University of Georgia

Athens, Georgia

September 19, 1975

I am pleased to be here at the University of Georgia and to have the opportunity to address this distinguished audience. Tomorrow promises to be an exciting day for you, and you will need all the rest you can muster. I shall therefore not waste many words as I share with you my concern about our nation's future.

Our country is now engaged in a fateful debate. There are many who declare that unemployment is a far more serious problem than inflation, and that monetary and fiscal policies must become more stimulative during the coming year even if inflation quickens in the process. I embrace the goal of full employment, and I shall suggest ways to achieve it. But I totally reject the argument of those who keep urging faster creation of money and still larger governmental deficits. Such policies would only bring us additional trouble; they cannot take us to the desired goal.

The American economy has recently begun to emerge from the deepest decline of business activity in the postwar period. During the course of the recession, which began in late 1973, the physical volume of our total output of goods and services declined by 8 per cent. The production of factories,

mines, and power plants fell even more -- by 14 per cent.

As the over-all level of economic activity receded, the demand for labor rapidly diminished and unemployment doubled, reaching an intolerable 9 per cent of the labor force this May.

The basic cause of the recession was our nation's failure to deal effectively with the inflation that got under way in the mid-sixties and soon became a dominant feature of our economic life. As wage and price increases quickened, seeds of trouble were sown across the economy. With abundant credit readily available, the construction of new homes, condominiums, and office buildings proceeded on a scale that exceeded the underlying demand. Rapidly rising prices eroded the purchasing power of workers' incomes and savings. Managerial practices of business enterprises became lax and productivity languished, while corporate profits -- properly reckoned -- kept falling. Inventories of raw materials and other supplies piled up as businessmen reacted to fears of shortages and still higher prices. Credit demands, both public and private, soared and interest rates rose to unprecedented heights. The banking system became overextended, the quality of loans tended to deteriorate, and the capital position of many banks was weakened.

During the past year many of these basic maladjustments have been worked out of the economic system by a painful process that could have been avoided if inflation had not gotten out of control. As the demand for goods and services slackened last winter, business managers began to focus more attention on efficiency and cost controls. Prices of industrial materials fell substantially, price increases at later stages of processing became less extensive, and in many instances business firms offered price concessions to clear their shelves. With the rate of inflation moderating, confidence of the general public was bolstered, and consumer spending strengthened. Business firms were thus able to liquidate a good part of their excess inventories in a rather brief period. Meanwhile, as the demand for credit diminished, tensions in financial markets were relieved, and the liquidity position of both banks and business firms generally improved.

These self-corrective forces internal to the business cycle were aided by fiscal and monetary policies that sought to cushion the effects of economic adversity and to provide some stimulus to economic recovery. On the fiscal side, public employment programs were expanded, unemployment insurance

was liberalized, and both personal and corporate income taxes were reduced. On the monetary side, easier credit conditions were fostered, resulting in lower interest rates and a rebuilding of liquidity across the economy.

With the base for economic recovery thus established, business activity has recently begun to improve. Production of goods and services turned up during the second quarter and is continuing to advance. The demand for labor has also improved. Both the number of individuals at work and the length of the workweek are rising again, and unemployment has declined three months in a row. Retail sales have risen further, and of late residential construction has joined the recovery process.

Along with these favorable developments, however, some ominous signs have emerged. Despite an occasional pause, inflation once again may be accelerating. By the second quarter of this year, the annual rate of increase in the general price level was down to 5-1/2 per cent -- about half the rate of inflation registered in the same period a year earlier. But over the summer, prices began to rise more briskly.

This behavior of prices is particularly worrisome in view of the large degree of slack that now exists in most of our

nation's industries. Price increases in various depressed industries -- aluminum, steel, autos, industrial chemicals, among others -- are a clear warning that our long-range problem of inflation is unsolved and therefore remains a threat to sustained economic recovery.

History suggests that at this early stage of a business upturn, confidence in the economic future should be strengthening steadily. A significant revival of confidence is indeed underway, but it is being hampered by widespread concern that a fresh outburst of double-digit inflation may before long bring on another recession. By now, thoughtful Americans are well aware of the profoundly disruptive consequences of inflation for our economy. They also recognize that these consequences are not solely of an economic character. Inflation has capricious effects on the income and wealth of a nation's families, and this inevitably causes disillusionment and discontent. Social and political frictions tend to multiply, and the very foundations of a society may be endangered. This has become evident in other nations around the world, where governments have toppled as a result of the social havoc wrought by inflation.

If we in the United States wish to enjoy the fruits of a prosperous economy and to preserve our democratic institutions,

we must come to grips squarely with the inflation that has been troubling our nation throughout much of the postwar period, and most grievously during the past decade.

A first step in this process is to recognize the true character of the problem. Our long-run problem of inflation has its roots in the structure of our economic institutions and in the financial policies of our government. All too frequently, this basic fact is clouded by external events that influence the rate of inflation -- such as a crop shortfall that results in higher farm prices, or the action of a foreign cartel that raises oil prices. The truth is that, for many years now, the economies of the United States and many other countries have developed a serious underlying bias toward inflation. This tendency has simply been magnified by the special influences that occasionally arise.

A major cause of this inflationary bias is the relative success that modern industrial nations have had in moderating the swings of the business cycle. Before World War II, cyclical declines of business activity in our country were typically longer and more severe than they have been during the past thirty years. In the environment then prevailing, the price level typically

declined in the course of a business recession, and many months or years elapsed before prices returned to their previous peak.

In recent decades, a new pattern of wage and price behavior has emerged. Prices of many individual commodities still demonstrate a tendency to decline when demand weakens. The average level of prices, however, hardly ever declines. Wage rates have become even more inflexible. Wage reductions are nowadays rare even in severely depressed industries and the average level of wage rates continues to rise inexorably in the face of widespread unemployment.

These developments have profoundly altered the economic environment. When prices are pulled up by expanding demand in a time of prosperity, and are also pushed up by rising costs during a slack period, the decisions of the economic community are sure to be influenced, and may in fact be dominated, by expectations of continuing inflation.

Thus, many businessmen have come to believe that the trend of production costs will be inevitably upward, and their resistance to higher prices -- whether of labor, or materials, or equipment -- has therefore diminished. Labor leaders and workers now tend to reason that in order to achieve a gain in

real income, they must bargain for wage increases that allow for advances in the price level as well as for such improvements as may occur in productivity. Lenders in their turn expect to be paid back in cheaper dollars, and therefore tend to hold out for higher interest rates. They are able to do so because the resistance of borrowers to high interest rates is weakened by their anticipation of rising prices.

These patterns of thought are closely linked to the emphasis that governments everywhere have placed on rapid economic growth throughout the postwar period. Western democracies, including our own, have tended to move promptly to check economic recession, but they have moved hesitantly in checking inflation. Western governments have also become more diligent in seeking ways to relieve the burdens of adversity facing their peoples. In the process they have all moved a considerable distance towards the welfare state.

In the United States, for example, the unemployment insurance system has been greatly liberalized. Benefits now run to as many as 65 weeks, and in some cases provide individuals with after-tax incomes almost as large as their earnings from prior employment. Social security benefits too have been

expanded materially, thus facilitating retirement or easing the burden of job loss for older workers. Welfare programs have been established for a large part of the population, and now include food stamps, school lunches, medicare and medicaid, public housing, and many other forms of assistance.

Protection from economic hardship has been extended by our government to business firms as well. The rigors of competitive enterprise are nowadays eased by import quotas, tariffs, price maintenance laws, and other forms of governmental regulation. Farmers, homebuilders, small businesses, and other groups are provided special credit facilities and other assistance. And even large firms of national reputation look to the Federal Government for sustenance when they get into trouble.

Many, perhaps most, of these governmental programs have highly commendable objectives, but they have been pursued without adequate regard for their cost or method of financing. Governmental budgets -- at the Federal, State, and local level -- have mounted and at times, as in the case of New York City, have literally gotten out of control. In the past ten years, Federal expenditures have increased by 175 per cent. Over that interval, the fiscal deficit of the Federal Government,

including government-sponsored enterprises, has totalled over \$200 billion. In the current fiscal year alone, we are likely to add another \$80 billion or more to that total. In financing these large and continuing deficits, pressure has been placed on our credit mechanisms, and the supply of money has frequently grown at a rate inconsistent with general price stability.

Changes in market behavior have contributed to the inflationary bias of our economy. In many businesses, price competition has given way to other forms of rivalry -- advertising, changes in product design, and "hard-sell" salesmanship. In labor markets, when an excessive wage increase occurs, it is apt to spread faster and more widely than before, partly because workmen have become more sensitive to wage developments elsewhere, partly also because many employers have found that a stable work force can be best maintained by emulating wage settlements in unionized industries. For their part, trade unions at times seem to attach higher priority to wage increases than to the jobs of their members. Moreover, the spread of trade unions to the rapidly expanding public sector has fostered during recent years numerous strikes, some of them clearly illegal, and they have

often resulted in acceptance of union demands -- however extreme. Needless to say, the apparent helplessness of governments to deal with this problem has encouraged other trade unions to exercise their latent market power more boldly.

The growth of our foreign trade and of capital movements to and from the United States has also increased the susceptibility of the American economy to inflationary trends. National economies around the world are now more closely interrelated, so that inflationary developments in one country are quickly communicated to others and become mutually reinforcing. Moreover, the adoption of a flexible exchange rate system -- though beneficial in dealing with large-scale adjustments of international payments, such as those arising from the sharp rise in oil prices -- may have made the Western world more prone to inflation by weakening the discipline of the balance of payments. Furthermore, since prices nowadays are more flexible upwards than downwards, any sizable decline in the foreign exchange value of the dollar is apt to have larger and more lasting effects on our price level than any offsetting appreciation of the dollar.

The long-run upward trend of prices in this country thus stems fundamentally from the financial policies of our government and the changing character of our economic institutions. This trend has been accentuated by new cultural values and standards, as is evidenced by pressures for wage increases every year, more holidays, longer vacations, and more liberal coffee breaks. The upward trend of prices has also been accentuated by the failure of business firms to invest sufficiently in the modernization and improvement of industrial plant. In recent years, the United States has been devoting a smaller part of its economic resources to business capital expenditures than any other major industrial nation in the world. All things considered, we should not be surprised that the rate of improvement in output per manhour has weakened over the past fifteen years, or that rapidly rising money wages have overwhelmed productivity gains and boosted unit labor costs of production.

Whatever may have been true in the past, there is no longer a meaningful trade-off between unemployment and inflation. In the current environment, a rapidly rising level of consumer prices will not lead to the creation of new jobs. On the contrary, it will lead to hesitation and sluggish buying,

as the increase of the personal savings rate in practically every industrial nation during these recent years of rapid inflation indicates. In general, stimulative financial policies have considerable merit when unemployment is extensive and inflation weak or absent; but such policies do not work well once inflation has come to dominate the thinking of a nation's consumers and businessmen. To be sure, highly expansionary monetary and fiscal policies might, for a short time, provide some additional thrust to economic activity. But inflation would inevitably accelerate -- a development that would create even more difficult economic problems than we have encountered over the past year.

Conventional thinking about stabilization policies is inadequate and out of date. We must now seek ways of bringing unemployment down without becoming engulfed by a new wave of inflation. The areas that need to be explored are many and difficult, and we may not find quickly the answers we seek. But if we are to have any chance of ridding our economy of its inflationary bias, we must at least be willing to reopen our economic minds. In the time remaining this evening, I shall briefly sketch several broad lines of attack on the dual problem of unemployment and inflation that seem promising to me.

First, governmental efforts are long overdue to encourage improvements in productivity through larger investment in modern plant and equipment. This objective would be promoted by overhauling the structure of Federal taxation, so as to increase incentives for business capital spending and for equity investments in American enterprises.

Second, we must face up to the fact that environmental and safety regulations have in recent years played a troublesome role in escalating costs and prices and in holding up industrial construction across our land. I am concerned, as are all thoughtful citizens, with the need to protect the environment and to improve in other ways the quality of life. I am also concerned, however, about the dampening effect of excessive governmental regulations on business activity. Progress towards full employment and price stability would be measurably improved, I believe, by stretching out the timetables for achieving our environmental and safety goals.

Third, a vigorous search should be made for ways to enhance price competition among our nation's business enterprises. We need to gather the courage to reassess laws directed against restraint of trade by business firms and to improve the

enforcement of these laws. We also need to reassess the highly complex governmental regulations affecting transportation, the effects on consumer prices of remaining fair trade laws, the monopoly of first-class mail by the Postal Service, and the many other laws and practices that impede the competitive process.

Fourth, in any serious search for noninflationary measures to reduce unemployment, governmental policies that affect labor markets have to be reviewed. For example, the Federal minimum wage law is still pricing many teenagers out of the job market. The Davis-Bacon Act continues to escalate construction costs and damage the depressed construction industry. Programs for unemployment compensation now provide benefits on such a generous scale that they may be blunting incentives to work. Even in today's environment, with about 8 per cent of the labor force unemployed, there are numerous job vacancies -- perhaps because job seekers are unaware of the opportunities, or because the skills of the unemployed are not suitable, or for other reasons. Surely, better results could be achieved with more effective job banks, more realistic training programs, and other labor market policies.

I believe that the ultimate objective of labor market policies should be to eliminate all involuntary unemployment. This is not a radical or impractical goal. It rests on the simple but often neglected fact that work is far better than the dole, both for the jobless individual and for the nation. A wise government will always strive to create an environment that is conducive to high employment in the private sector. Nevertheless, there may be no way to reach the goal of full employment short of making the government an employer of last resort. This could be done by offering public employment -- for example, in hospitals, schools, public parks, or the like -- to anyone who is willing to work at a rate of pay somewhat below the Federal minimum wage.

With proper administration, these public service workers would be engaged in productive labor, not leaf-raking or other make-work. To be sure, such a program would not reach those who are voluntarily unemployed, but there is also no compelling reason why it should do so. What it would do is to make jobs available for those who need to earn some money.

It is highly important, of course, that such a program should not become a vehicle for expanding public jobs at the expense of private industry. Those employed at the special public jobs will need to be encouraged to seek more remunerative

and more attractive work. This could be accomplished by building into the program certain safeguards -- perhaps through a Constitutional amendment -- that would limit upward adjustment in the rate of pay for these special public jobs. With such safeguards, the budgetary cost of eliminating unemployment need not be burdensome. I say this, first, because the number of individuals accepting the public service jobs would be much smaller than the number now counted as unemployed; second, because the availability of public jobs would permit sharp reduction in the scope of unemployment insurance and other governmental programs to alleviate income loss. To permit active searching for a regular job, however, unemployment insurance for a brief period -- perhaps 13 weeks or so -- would still serve a useful function.

Finally, we also need to rethink the appropriate role of an incomes policy in the present environment. Lasting benefits cannot be expected from a mandatory wage and price control program, as recent experience indicates. It might actually be helpful if the Congress renounced any intention to return to mandatory controls, so that businesses and trade unions could look forward with confidence to the continuance

of free markets. I still believe, however, that a modest form of incomes policy, in some cases relying on quiet governmental intervention, in others on public hearings and the mobilization of public opinion, may yet be of significant benefit in reducing abuses of private economic power and moving our nation towards the goal of full employment and a stable price level.

Structural reforms of our economy, along some such lines as I have sketched, deserve more attention this critical year from members of the Congress and from academic students of public policy than they are receiving. Economists in particular have tended to concentrate excessively on over-all fiscal and monetary policies of economic stimulation. These traditional tools remain useful and even essential; but once inflationary expectations have become widespread, they must be used with great care and moderation.

This, then, is the basic message that I want to leave with you: our nation cannot now achieve the goal of full employment by pursuing fiscal and monetary policies that rekindle inflationary expectations. Inflation has weakened our economy; it is also endangering our economic and political system based

on freedom. America has become enmeshed in an inflationary web, and we need to gather our moral strength and intellectual courage to extricate ourselves from it. I hope that all of you will join in this struggle for America's future.

FROM THE DESK OF
J.B. FUGUA

12/23/76

C

Charles Kirbo

Re: Supplementing the JBF memo on
unemployment-social security

BLS shows about 4 million employed persons in the 60-64 age bracket. I do not know how many are covered by social security, but this type of data is easily researched by Carter staff.

While the number who would drop out of the labor force could only be estimated (or sampled by interviews) I think it would be very substantial.

I again urge consideration as best way to quickly reduce unemployment.



January 5, 1977

MEMORANDUM

C

TO: PRESIDENT-ELECT CARTER
FROM: JOE CALIFANO
RE: Welfare Reform Timetable

Given the extensive amount of research, evaluation and public debate, I believe that we can present a welfare reform plan for your consideration by May 1. In terms of public release, I would suggest that you allow an additional 60 days for consideration of program and budgetary alternatives and political feasibility.

- Accordingly, I believe that you can express an intention to submit the most urgent first initiatives in welfare reform to the Congress by July 1. Tough political and fiscal judgments will have to be made as to how comprehensive those reforms can be.

It should be noted that there will be pressures for delay on several grounds — budgetary impact of any reform; need to coordinate with national health insurance; need to find ways to control escalating health care costs before any change is made in welfare — Medicaid programs — but I believe we can and should move as promptly as possible.

Briefly stated, the objectives of welfare reform will be to:

- Eliminate inequities in the present system whereby some recipients receive benefits under a variety of programs that are higher than after-tax incomes of employed persons;
- Reduce disparities in benefits depending on where people live and on how many programs they qualify for;
- Minimize work disincentives
- Expand meaningful job opportunities to minimize the need for welfare benefits for employable persons.
- Provide some fiscal relief to states and localities. (It should be noted that significant short-term fiscal relief for large industrial states may not be feasible because of the tremendous budgetary impact of any absorption of the present share of high local welfare benefits.
- Simplify the welfare system and make it more efficient and less subject to abuse.

To meet those objectives, we will be reviewing the following types of reform (including combinations of such approaches):

- Modification of existing programs.
- Consolidated, comprehensive programs which would retain the idea of categorical programs for people with different needs (employable

persons in need, unemployable persons, aged, blind, disabled, etc.), but which would embody a complete restructuring of such programs.

- Comprehensive income security plans involving some combination of tax credits and income related cash benefits.

I will begin immediately to develop Welfare Reform proposals in keeping with the above timetable.

I have now seen almost every member of the Senate Finance Committee and Al Ullman of Ways and Means. Russell Long and most of the members I have talked to have some concern about the political implications of enacting a big and costly welfare package too soon, although they all recognize that this issue must come up this year.

Ullman and Long seem inclined to follow this timetable for committee consideration:

First, The economic stimulus package, including the tax cut;

Second, Increasing Social Security taxes, and then

Thirdly, Welfare reform.

At this juncture, neither Ullman nor Long are convinced of the need to provide a large benefit package for welfare mothers and dependent children. Long prefers to put welfare mothers to work and their children in a day care system; both

he and Ullman are insisting that there are still far too many employable people on the welfare rolls.

In view of this background, I would be general regarding what you mean about welfare reform. To some, welfare means the \$10 - \$20 billion Griffiths' bill. To others, it connotes moving the "cheats" and "malingering employables" off the rolls.

Consistent with your campaign pledges to the American people, welfare reform must come in time and must be intelligently planned, passed and humanely and effectively administered. Because it will take unprecedented levels of cooperation between your administration, the Congress, and the local levels of government to see welfare reform through to ultimate conclusion as the law of the land, I am proposing to adopt an unprecedented early partnership in the policy planning - legislative process.

At your request, I could, from day one, try to put Long and Ullman's staff, and the staff of The New Coalition together with HEW's Planning and Evaluation Staff, under my direction, to have them all work together as a joint team in developing the program. I do not expect agreement on all issues, but this process will serve to narrow the issues of disagreement, so that the contours of the program will become much better defined. In this way, when the program is finally

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presented to you for decision, you will have a fairly good picture of what to expect from the Hill and where the program is actually going. It will also save the time of staff review on the Hill.

January 5, 1977

MEMORANDUM

FOR: PRESIDENT-ELECT CARTER
FROM: JOE CALIFANO
RE: Tax Stimulus Program.

In resolving the complex economic and social issues relating to stimulation of the economy, I would urge that the following points be considered:

First, Tax Relief for the Poor and Near Poor

— Whether the relief is temporary or permanent, the poor and near poor should be included in any relief package. The 1974 tax cuts had benefits for everyone except the very poor. A cash bonus was paid to some of the working poor with children and to social security recipients, but benefits were not extended to poor mothers with children on AFDC and the poorest elderly and disabled persons.

— To the extent cash payments are made to such groups, the program could be characterized as the first step in your welfare reform effort — and the money would be spent immediately. (Obviously, such an approach would have to be sold to Russell Long and Al Ullman.)

Second, permanent tax cuts to other than the poor and near poor will not in any way reduce the cost of welfare reform. For a comprehensive package (a la the Griffiths' bill) those costs are estimated to be from \$10 - \$20 billion.

— Tax cuts do not in and of themselves increase welfare costs. They do reduce revenues which will be needed to finance welfare reform. If history is a guide, permanent tax reductions are not easily restored; indeed, even temporary tax relief is difficult to turn off. This fiscal reality, coupled with the prospects that inflation and other unforeseen add-ons may reduce the "full employment dividend" presently projected, leads to the conclusion that permanent tax cuts for the non-poor are likely to make meaningful welfare reforms more difficult to achieve.

Third, The Impact of Tax Cuts on the Social Security System.

— In considering whether to make tax cuts temporary or permanent, it should be noted that additional social security tax increases — of as much as \$2 to \$4 billion — may be necessary as early as calendar 1978 to ensure the integrity of the Social Security System. Many Senate Finance and Ways and Means Committee members have urged me to have that tax package ready by March to follow your stimulus program.

Fourth, Some Special Employment Programs to Provide Services for the Very Needy.

— Instead of earmarking all funds for general employment programs, some of the funds should be earmarked to support your commitment to meet the needs of American families for improved health, education and social services.

This could be done by supporting employment programs which

-3-

will provide health, education and other social services
for children, the elderly and other persons in need.

C
/

December 3, 1976

MEMORANDUM

TO : Governor Carter

FROM: Jody Powell

Although I agree with Jerry on my statement and share his concern on OPEC, I strongly disagree on some others.

You cannot be restrained on speaking out on issues that will be of vital concern to your Administration.

You cannot be expected to maintain an artificial agreement with Ford on every issue that might arise.

You can't say it, but Ford's personal relationship with the steel people and their lobby is well known. For you to defer to him in this matter would be a mistake. There were persistent rumors during the campaign about his arbitrary action on matters relating to this industry -- action taken without consultation or over objections of staff and interested agencies.

I discussed the contents of his memo with Jerry late yesterday. I told him that I disagreed on some points. He offered to send it thru me so I could express those reservations.

MEMO

TO: PRESIDENT ELECT CARTER

FROM: JERRY JASINOWSKI *J. Jasinowski*

RE: STEEL PRICE INCREASES

DATE: DECEMBER 2, 1976

SEVERAL OF PRESIDENT FORD'S ADVISORS--AND I AM TOLD FORD HIMSELF--HAVE EXPRESSED CONCERN ABOUT THE COMMENTS YOU AND JODY HAVE MADE ABOUT THE STEEL PRICE INCREASES BECAUSE:

1) THEY BELIEVE YOU ARE MAKING POLICY BEFORE YOU ARE PRESIDENT, AND THAT JODY'S STATEMENT ON THE TODAY SHOW GAVE SOME IMPRESSION THAT THE PRESIDENT'S COUNCIL ON WAGE AND PRICE STABILITY WAS WORKING FOR YOU INSTEAD OF FORD;

2) YOUR REMARKS ABOUT OPEC, ALTHOUGH ACCURATE, MAY IN FACT GIVE OPEC FURTHER AMMUNITION TO INCREASE OIL PRICES;

3) THAT YOU WERE MAKING A JUDGEMENT ON WHETHER THE PRICE INCREASE WAS JUSTIFIED BEFORE ALL THE FACTS WERE AVAILABLE: AND *If the facts weren't in the industry should have waited. JJ*

4) THAT AN IMPRESSION HAS BEEN GIVEN THAT THERE IS SOME DISAGREEMENT BETWEEN YOU AND FORD ON THIS ISSUE, WHICH WILL ENCOURAGE OTHER FIRMS TO RAISE PRICES BECAUSE

"NO ONE IS IN CHARGE OF THE GOVERNMENT." *Perhaps the impression of agreement by Ford's "hands-off" policy would be more helpful in*
THE FORD ADMINISTRATION HAS DONE A FAIR JOB ON THE

STEEL PRICE INCREASE. THEY HAVE EXPRESSED CONCERN AND *discouraging price increases.*
JJ

LAUNCHED AN INVESTIGATION. THE PRELIMINARY REPORT, RELEASED TODAY (WITH A SUMMARY ATTACHED) EXPRESSED RESERVATIONS ABOUT THE PRICE INCREASE. THE REPORT ALSO EXPRESSES CONCERN ABOUT THE POSSIBILITY THAT FIRMS ARE ATTEMPTING TO "JUMP THE GUN" TO ESTABLISH HIGHER PRICES TO AVOID POSSIBLE FUTURE WAGE AND PRICE CONTROLS.

IN VIEW OF THE ABOVE, I SUGGEST YOU CALL FORD AND EXPRESS YOUR DESIRE TO WORK TOGETHER ON THIS MATTER. HIS STAFF HAS ALREADY BEEN MOST COOPERATIVE. SEEK HIS VIEWS ON THE MATTER AND SEE IF HE WILL AGREE THAT YOU SHOULD BOTH TAKE THE POSITION THAT BUSINESS SHOULD SHOW PRICE RESTRAINT DURING THE TRANSITION PERIOD AND WHILE WE ARE EXPERIENCING A WEAK ECONOMIC RECOVERY. YOU COULD THEN SAY AT YOUR PRESS CONFERENCE TOMORROW THAT YOU AND FORD ARE UNITED ON THIS POSITION.

IN RESPONSE TO FURTHER QUESTIONS AT YOUR PRESS CONFERENCE TOMORROW, YOU SHOULD AVOID TAKING A FINAL POSITION ON WHETHER THE PRICE INCREASE IS JUSTIFIED BECAUSE THE FORD INVESTIGATION IS CONTINUING. ADDITIONAL POINTS YOU COULD MAKE ARE: *For Ford's sake don't back off!! JH*

1) THAT YOU RECOGNIZE THAT THE STEEL INDUSTRY COSTS HAVE SQUEEZED PROFITS, BUT THAT THE WAY TO RAISE PROFITS IS TO RAISE PRODUCTION BY GETTING THE ECONOMY WORKING AGAIN.

2) THAT THE PRELIMINARY COUNCIL ON WAGE AND PRICE STABILITY REPORT HAS SERIOUS RESERVATIONS ABOUT THE PRICE INCREASES BECAUSE SHEET STEEL PRICES WERE ALREADY RAISED ONCE THIS YEAR, BECAUSE DEMAND IS TOO WEAK IN THE STEEL INDUSTRY TO JUSTIFY THE PRICE INCREASE, AND THE STEEL INDUSTRY IS OPERATING AT ONLY 70 PERCENT CAPACITY. IN OTHER WORDS, COMPETITIVE MARKET CONDITIONS DO NOT APPEAR TO JUSTIFY A PRICE INCREASE;

3) THAT THE PRICE INCREASE WILL HAVE A SERIOUS INFLATIONARY IMPACT AND WEAKEN THE ECONOMIC RECOVERY BECAUSE CONSUMERS WILL BUY FEWER AUTOS AND OTHER PRODUCTS;

4) THAT YOU SEE NO NEED FOR WAGE AND PRICE CONTROLS IN THE FORSEEABLE FUTURE. BUT THAT THIS ASSUMES THAT THE COMPETITIVE MARKET WORKS, THAT PRICES ARE SET BY SUPPLY AND DEMAND AND NOT SET BY BUSINESS EXECUTIVE FIAT;

5) THAT YOU AND FORD ARE IN AGREEMENT (IF HE AGREES) THAT DURING THE TRANSITION PERIOD FIRMS SHOULD EXERCISE THE GREATEST PRICE RESTRAINT POSSIBLE.

I ALSO SUGGEST YOU NOT MEET WITH ANY STEEL EXECUTIVES ON THIS MATTER. IF YOU MET WITH THEM THEY WOULD OVERWHELM YOU WITH THEIR FACTS AND FIGURES, AND IT COULD BRING OTHER EXECUTIVES TO YOUR DOOR WHEN THEY RAISE PRICES. IF YOU HAVE DESIGNATED ANY REPRESENTATIVES TO TALK WITH THE STEEL PEOPLE,

PLEASE LET US KNOW BECAUSE THE PRESS KEEPS ASKING WHO THESE REPRESENTATIVES ARE.

ATTACHED IS A COPY OF A SUMMARY OF THE PRELIMINARY REPORT BY THE COUNCIL ON WAGE AND PRICE STABILITY.

P.S. WE CANNOT CONFIRM LARRY KLEIN'S STATEMENT THAT THE STEEL PRICE INCREASE WOULD HAVE THE SAME INFLATION IMPACT AS A 10% OPEC PRICE INCREASE. OTHER ECONOMISTS SAY IT WOULD BE MUCH LESS. I WOULD AVOID ANY FURTHER COMMENTS RELATING THE STEEL AND OPEC PRICE INCREASE.

P.P.S. THE FORD ADMINISTRATION HAS CONSISTENTLY TAKEN A POSITION AGAINST JAWBONING--ARGUING AGAINST BUSINESS PRICE INCREASES. I KNOW YOU WANT TO TAKE A MORE ACTIVE STANCE BUT THE FACT IS THAT YOU CANNOT DO SO UNTIL YOU ARE PRESIDENT. WHEN ASKED ABOUT WHAT ROLE YOU BELIEVE A PRESIDENT SHOULD PLAY IN SUCH CASES, EMPHASIZE THAT YOU WOULD PURSUE THOSE POLICIES NECESSARY TO ENSURE THAT COMPETITIVE MARKETS ARE WORKING (SUCH POLICIES ARE BEING DEVELOPED FOR YOUR ADMINISTRATION).

I suggest you say that you will deal with such markets on a case by case basis. I don't think you can forego the use of moral suasion - a call to sacrifice in the common interest.

FROM: COUNCIL ON WAGE AND PRICE STABILITY
726 Jackson Place, N.W., Washington D.C. 20506

TO THE MEMBERS AND ADVISER MEMBERS OF THE COUNCIL ON WAGE AND
PRICE STABILITY

BETWEEN NOVEMBER 24 AND NOVEMBER 29, 1976, THE NINE
LARGEST U.S. STEEL PRODUCERS ANNOUNCED 6-7 PERCENT INCREASES
IN THE LIST PRICES OF SHEET STEEL PRODUCTS, TO BECOME EFFECTIVE
ON DECEMBER 1, 1976. THESE PRODUCTS ARE AN IMPORTANT INGREDIENT
IN SUCH MAJOR CONSUMER PURCHASES AS NEW AUTOMOBILES AND HOUSEHOLD
APPLIANCES. THE COUNCIL ON WAGE AND PRICE STABILITY HAS
REQUESTED DATA ON PRICES, PRODUCTION, COSTS, PROFITS AND
EXPECTED SALES FROM THESE COMPANIES WHICH WILL PERMIT THE
STAFF TO CONDUCT A DETAILED ANALYSIS OF THESE PRICE INCREASES
AND TO ISSUE A PUBLIC REPORT. THE ATTACHED PAPER IS INTENDED
TO SERVE AS A PRELIMINARY REPORT BASED ON THE STAFF'S ANALYSIS
OF CURRENTLY AVAILABLE DATA AND OTHER INFORMATION. WE ARE
CIRCULATING THIS TO THE COUNCIL MEMBERS FOR YOUR REVIEW AND
COMMENT, AND TO SEEK YOUR GUIDANCE AS TO WHAT ADDITIONAL
MATERIALS SHOULD BE INCORPORATED, AND WHAT REVISIONS SHOULD BE
MADE, IN THE FINAL DOCUMENT. INASMUCH AS THE LEAD TIME
BETWEEN THE PRICE INCREASE ANNOUNCEMENTS AND THE EFFECTIVE
DATE WAS SO SHORT, WE ARE SIMULTANEOUSLY RELEASING THIS
REPORT TO THE PUBLIC SO THAT IT WILL HAVE BEFORE IT AS
MUCH OBJECTIVE INFORMATION AS IS AVAILABLE AT THIS TIME.

THE ATTACHED PRELIMINARY REPORT DISCUSSES THE FOLLOWING
POINTS REGARDING THE RECENT PRICE INCREASES:

1. HISTORY OF LIST PRICE INCREASES: WHEN THE RECENTLY
ANNOUNCED PRICE HIKES ARE ADDED TO THE 6-7 PERCENT
INCREASES WHICH WERE MADE EFFECTIVE LAST SPRING, THESE LATEST

INCREASES BRING THE TOTAL PRICE RISE FOR SHEET STEEL PRODUCTS IN 1976 TO BETWEEN 13 AND 14 PERCENT.

2. DEMAND CONDITIONS: DEMAND FOR STEEL PRODUCTS SHOWS AN EROSION SINCE LATE SPRING OF 1976, AND THIS EROSION IS REFLECTED IN STEELWORKER LAYOFFS AND SELECTED FURNACE SHUTDOWNS. THE MOST RECENT FIGURES AVAILABLE INDICATE THAT CAPACITY UTILIZATION IN THE STEEL INDUSTRY IS CURRENTLY BELOW 70 PERCENT. FUTURE DEMAND FOR STEEL PRODUCTS IS QUITE UNCERTAIN AT PRESENT IN VIEW OF THE LEVELING OFF OF AUTOMOBILE AND APPLIANCE SALES AND WEAK CONSTRUCTION AND CAPITAL GOODS DEMAND.

3. COSTS: DATA PREVIOUSLY MADE AVAILABLE TO THE COUNCIL BY STEEL PRODUCERS INDICATE THAT THE COST OF PRODUCTION HAS RISEN BY 74 PERCENT SINCE 1972, WHILE PRICE INCREASES OVER A SIMILAR PERIOD TOTALED 66 PERCENT.

4. PROFITS: STEEL CORPORATIONS' PROFITS REMAIN NEAR THEIR 1975 LOWS AND APPRECIABLY BENEATH THE AVERAGE FOR ALL MANUFACTURING. HOWEVER, AS IN ANY CAPITAL INTENSIVE INDUSTRY, PROFITS IN THE STEEL INDUSTRY ARE HIGHLY SENSITIVE TO THE VOLUME OF PRODUCTION. WERE THE STEEL INDUSTRY OPERATING CLOSER TO FULL CAPACITY, PROFITS WOULD BE FAR MORE SATISFACTORY.

BASED ON THIS INFORMATION, THE COUNCIL STAFF HAS SOME SERIOUS RESERVATIONS ABOUT THE ANNOUNCED LIST PRICE INCREASES. WE ARE PRIMARILY CONCERNED THAT THE STEEL COMPANIES, IN SPITE OF RELATIVELY WEAK DEMAND, ARE ATTEMPTING TO "JUMP THE GUN" IN ESTABLISHING HIGHER LIST PRICES TO PROTECT THEMSELVES AGAINST POSSIBLE FUTURE WAGE AND PRICE CONTROLS OR OTHER FORMS OF GOVERNMENT

INTERVENTION IN CORPORATE PRICING DECISIONS. WE WORRY THAT ACTIONS OF THIS SORT ON THE PART OF ONE MAJOR INDUSTRY WILL TRIGGER SIMILAR REACTIONS IN OTHER SEGMENTS OF THE ECONOMY WHICH, COLLECTIVELY, COULD VERY WELL CREATE AN ENVIRONMENT WHICH WOULD INVITE THE VERY KIND OF GOVERNMENT BEHAVIOR THAT BUSINESS SEEKS TO AVOID. IT IS PRECISELY THIS POTENTIAL "BACKFIRE" EFFECT THAT CONCERNS US.

THIS REPORT WAS WRITTEN BY RICHARD ROSENBERG, SENIOR STAFF ECOCONOMIST, WITH RESEARCH ASSISTANCE FROM CHRISTOPHER ROBERTS. THEIR WORK WAS DONE UNDER THE DIRECTION OF ROBERT W. CRANDALL, ASSISTANT DIRECTOR FOR WAGE AND PRICE MONITORING, AND JACK MEYER, DEPUTY ASSISTANT DIRECTOR FOR WAGE AND PRICE MONITORING.

(SIGNED)

WILLIAM LILLEY III

ACTING DIRECTOR

1 MM
PRECEDENCE

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CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: Maxie Wells, Plains

TO: Stuart Eizenstat in the
Transition Office, HEW

INFO:

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SPECIAL INSTRUCTIONS:



Henry Ford II

Mr. Lance:

Here is an advance draft
copy of my year-end
statement which will be
released for publication
this Sunday, December 12.

I thought Governor Carter
and you might be interested
in our estimate of the short-
term economic outlook for
the economy and particularly
for autos, as well as my
observations on some of the
problems we face.

A handwritten signature in dark ink, appearing to read "Henry Ford II", with a horizontal line underneath.

✓ Stu
C
/

Draft of a year-end statement by Henry Ford II, chairman of the board, Ford Motor Company, scheduled for release on Sunday, December 12, 1976:

The past year has been one of healthy recovery for the worldwide motor vehicle industry, and we expect that 1977 will be even better.

We see no reason to fear that the slowing of economic growth during this year signals the end of the present recovery in the United States, and many reasons to believe that moderate economic growth will continue through next year. Housing starts are at the highest rate in two-and-a-half years. Non-farm employment is going up. Interest rates are still falling. Consumer prices have risen less than 6% this year, compared to 9% in 1975 and 11% in 1974. Business inventories are at a satisfactory level and business spending is rising.

We are planning our own capital expenditures at record levels in order to comply with government regulations, improve our products and manufacturing efficiency and keep up with expanding world markets. Our worldwide capital spending for special tools and facilities will total about \$1.2 billion this year -- up more than \$200 million from 1975. We are planning to spend a new high of about \$2 billion next year, and an average of more than \$2 billion a year over the following three years.

Worldwide industry sales this year have exceeded our expectations. Retail car and truck sales in the free world will total about 33.8 million units in 1976 -- up 10% from 30.8 million units in 1975. We expect that total car and truck sales next year will approach 35 million units -- about 3% higher than this year.

In spite of the slowing of economic growth since the first quarter and the UAW strike against Ford at the beginning of the 1977 model year, industry car sales in the United States have held fairly steady at an annual rate of about 10 million throughout 1976. For the calendar year, total car sales will be just over 10 million -- up 17% from 1975. Industry truck sales in the United States have been even stronger -- up 28% from last year. The total for the year is likely to equal or exceed the record of 3.16 million units set in 1973.

Industry sales should get off to a strong start in the new year, as stocks of Ford and Lincoln-Mercury dealers are replenished and the American economy rebounds from the impact of the UAW strike. For the rest of the year, we look forward to continued growth in industry sales based on sound and moderate growth in the economy.

Contrary to the gloomy economic commentary that has become prevalent in recent weeks, I believe that the American economy is making solid progress. What the economy needs right now is not a strong new push toward faster growth, but the patience to persist with the moderate fiscal and monetary policies that have led to steady recovery along with a steady decline in the rate of inflation. Employment has risen a remarkable 3.5% during the past 12 months, more than twice the rate of increase in the working-age population. The benefits resulting from even faster economic growth would be far outweighed, in my judgment, by the risk of setting off a new surge of inflation that would inevitably be followed by another recession.

The economic policies of the new Administration are not yet evident, but I am encouraged by signs that President-elect Carter is approaching the formulation of economic policy with a good deal of caution. Assuming a modest tax cut, but no basic shift in fiscal and monetary policies in the early months of the new Administration, we expect that industry car sales in the United States will reach 10.6 million in 1977, while truck sales should reach a new high of 3.4 million.

Industry retail sales of both cars and trucks also increased this year outside the United States. Largely because of strong sales in most of Europe, total car sales outside the United States will be about 16.3 million units this year -- up 4% from 15.6 million units in 1975. Total truck sales outside the United States will reach a new high in 1976 of about 4.3 million units -- up 5% from 4.1 million units in 1975.

Although administration of many national governments has changed hands this year, most countries are persisting in their efforts to reduce inflation by following cautious fiscal and monetary policies. We are therefore expecting slower economic growth, some reduction in inflation rates and slower improvement in vehicle sales overseas as well as at home. Overall, we expect that industry car sales outside the United States will rise about 2% next year to a new high of 16.7 million units, while truck sales outside the United States are expected to remain at about this year's record level of 4.3 million units.

For the longer run, we are increasingly concerned about the impact of government regulation of our industry on the health and growth of the

American economy. A strong economy -- with steady growth, high employment and stable prices -- depends not only on sound fiscal and monetary policies but also on conditions which permit industry to respond flexibly and efficiently to market forces. When government regulation of business is conducted in a punitive spirit and major industries are hampered by inflexible and unreasonable rules, the whole economy suffers.

The new Administration in Washington has an important opportunity to improve the performance of the American economy by taking a fresh look at the recent proliferation of Federal legislation and regulation affecting American business, particularly in the areas of environmental and energy policy. Important national goals in these and other areas can and must be achieved -- but at lower economic and social cost. The present state of conflict and mutual suspicion between business and government can be replaced by an atmosphere of trust and cooperation if regulatory programs are based on objective balancing of costs against benefits and are designed to work in harmony rather than at cross purposes with market forces.

Because the automobile industry is, by any measure, the nation's largest manufacturing industry, a complete review of Federal vehicle regulations should have high priority. Federal fuel economy standards are a good example of the economic harm that can be caused by ill-conceived regulation.

Even though these standards do not become effective until the 1978 model year, it is increasingly clear that industry car sales and employment already are being constrained by the discrepancy between the kinds of

cars consumers want and the mix of cars it will be necessary to build in order to meet the fuel economy standards.

As the small car share of industry sales rose sharply in the wake of the Arab oil embargo, the industry hastened to convert manufacturing and assembly capacity from large cars to small cars. Since then, however, consumer enthusiasm for small cars has waned. Small cars accounted for about 52% of industry sales in the 1975 model year, but only about 48% in the 1976 model year. In the first few months of the 1977 model year, the small car share has dropped a little more, to about 47%. This trend is not likely to go much further, but neither is it likely to be reversed in the near future.

Because of this trend, the industry has had excess small-car capacity this year, and insufficient capacity to maintain normal dealer stocks of intermediate and full size cars. Unless more consumers decide to buy small cars, total car sales will continue to be constrained next year by shortages of large cars.

In the absence of fuel economy legislation, this imbalance between supply and demand would soon be corrected by reconversion of manufacturing and assembly capacity from small cars to large cars. But, in order to meet Federal fuel economy requirements starting next fall, the large-car share of our production will have to go down -- not up -- and we cannot invest substantially in large-car capacity that we will soon be unable to use.

It is difficult to estimate how many car sales have been and will be lost because of this situation. But it is obvious that the depressing effect

of fuel economy standards on car sales and industry employment will become increasingly serious as the Federal fuel economy requirement rises from 18 miles per gallon for the 1978 model year to 27.5 miles per gallon by 1985.

The average European car is much smaller than the average American car because of generally lower incomes and much higher fuel taxes, and the fuel economy of European cars is not penalized, as it is in the United States, by stringent emission standards. Even so, average passenger car fuel economy in most European countries is far below 27.5 miles per gallon. Even in Europe consumers are not interested in cars that are small enough to meet the Federal fuel economy requirement for 1985.

There is no doubt that U.S. car sales will be seriously affected if manufacturers are forced to offer the American market a mix of cars that is much more fuel efficient than the average European car.

The outlook for industry sales in the United States is also seriously affected, in both the short run and the long run, by Federal vehicle emission standards. Our forecast of 10.6 million new car sales assumes that the new Congress will move promptly to amend the present statutory emission standards for 1978 models. Although both houses of the last Congress agreed that the 1978 emission standards should be the same as the 1977 standards, the legislation incorporating this decision died on the last day of the session. Unless the 1978 standards are set by Congress at the 1977 levels, Ford will be unable to build 1978 model cars. To the best of our knowledge, all other manufacturers are in the same position.

Time for further development of 1978 emission control systems has already run out, and time for development of 1979 systems is rapidly running out. If the industry is to be required to meet much tighter emission standards for the 1979 model year, we need to know as soon as possible precisely what those requirements will be.

There is one more reason why Congress should act promptly to establish a reasonable schedule of emission standards, not only for the next two model years, but also for the longer run. By mid-1977, the Secretary of Transportation is required by law to establish passenger car fuel economy standards for the 1981 through 1984 model years. Because of the interrelationship among emission controls, fuel economy and power train technology, there is no sensible way for the government to set future fuel economy standards, and no sensible way for us to prepare to meet those standards, until future emission requirements are known. We hope, therefore, the new Administration will press for early enactment of essential changes in the vehicle emissions portion of the Clean Air Act.

1976 has been an excellent sales year for Ford products, particularly in overseas markets. While total free world car and truck sales in 1976 are up 10% from 1975, sales of Ford-built cars and trucks are up 15% to 5.4 million units.

More Ford-built cars and trucks have been sold outside the United States this year than in any prior year. In Europe, where industry car sales are up 12%, Ford car sales are up 31%. We expect further gains in

both unit sales and market share in overseas markets next year. 1977 will be the first full year for the Fiesta, which was introduced in most European countries in September. We expect the Fiesta to provide substantial incremental sales volume throughout Europe and especially in France, Italy and Spain, where mini-cars account for one-third to one-half of all car sales.

Our sales in the United States are still being affected by the UAW strike this fall which shut down all our facilities for 28 days and some of our plants for as long as 67 days. For the calendar year through September 10 -- prior to the strike -- our share of industry car sales in the United States improved slightly, to 23.2% from 22.9% in the same period of 1975. On the same basis, our share of industry truck sales gained more than two percentage points, from 30.8% to 32.9%.

We expect to do very well in U.S. car and truck markets next year. Although still in short supply, the new Mark V and our new intermediate cars -- LTD II, Cougar and Thunderbird -- are now selling at rates far above last year's levels. The Lincoln Versailles, a new small luxury car, will go on sale next spring, and the European Fiesta will be introduced to the American market in mid-year. Our Econoline trucks and club wagons have been sold out since the present version was introduced at the beginning of the 1975 model year, and we will be launching new Econoline capacity at Oakville, Ontario, next April. In June, our present W-Series trucks will be replaced by all-new cab-over-engine linehaul diesel trucks. Our truck

sales next year also should benefit from the introduction, in September, of an all-new and larger four-wheel drive Bronco.

More Ford tractors have been sold at retail this year than in any previous year. Worldwide tractor industry sales in 1976 will reach a new high of about 875,000 units, and Ford's share of the world market increased as a result of capacity expansion and the introduction of all-new lines of agricultural and industrial products during the year. We expect further gains in both unit sales and market share next year.

As our plans for record capital spending suggest, we continue to have confidence in the growth of world markets for our products. There is a very good chance that worldwide retail sales of Ford-built cars, trucks and tractors in 1977 will top our 1973 record of 6 million units.

TO
C. V. Conner
Eigenstat
J

FORD MOTOR WHITE PAPER ON
AUTOMOTIVE EMISSIONS STANDARDS AND FUEL ECONOMY
December 9, 1976

There has been a lot of talk about delays in auto emission standards. The facts are that since automobiles were identified as a major contributor to the air quality problem, most of the pollution from new cars has been eliminated. Federal emission standards were first established for the 1968 model year and have been tightened five times since then. California first set auto exhaust standards for 1966 models and today's California standards are even more stringent than those in the other 49 states. Emissions of the three regulated pollutants from new cars have already been reduced almost 80%.

Carbon monoxide emissions have already been reduced to a point so that EPA no longer anticipates that any city will exceed the National Ambient Air Quality standard. As old, high-emitting cars are retired and replaced by new cars meeting today's stringent standards, we will continue to make major gains in reducing auto pollution.

Nevertheless, Ford is Not Recommending That We Stop at Today's Levels

We expect to be able to meet substantially more stringent standards within the next few years using complex new technology involving three-way catalysts, sensors to provide consistent monitoring of exhaust components, new carburetor designs and feedback from the sensors to the carburetor to provide instantaneous correction of air-fuel ratios. This technology is, however, still under development. We have great confidence in its potential, but it is not yet proven -- tested -- and ready to be installed on millions of vehicles. We are going to produce a small number of 1978 vehicles with these systems to determine feasibility in field use. Lower emission levels can be achieved at lower cost and with better results in terms of fuel economy and good customer performance, if the timetable allows for orderly development and phase in.

There is Very Little Difference Among the Various Emission Proposals in Air Quality Impact

As shown in Exhibit I, the differences in the emission standards that were seriously considered by Congress in the last session are very small. They relate only to the timing of final hydrocarbon and carbon monoxide standards and to the appropriate level for oxides of nitrogen (NOx). There is disagreement among scientific authorities on what level of NOx control is needed for public health reasons. The final NOx standard is critical in that too stringent a standard will probably rule out completely a number of promising alternate engine possibilities.

Further, the differences in air quality gains under the various proposals are small. A study by DOT/EPA/FEA last spring compared all of the emission standards under consideration at that time, including one more stringent than eventually adopted by the Conference Committee, and forecast negligible differences in air quality gains.

At the Same Time, Fuel Economy Has Emerged As a Simultaneous but Often Conflicting National Objective

Early in 1974, auto manufacturers voluntarily committed to the prior Administration for a 40% fuel economy improvement by 1980 as energy conservation became a national priority. Ford and others in the industry have already made major gains in fuel economy since that time. Further, we at Ford have launched aggressive programs to downsize our vehicles, to use lighter-weight components, to improve our powertrains, and to pursue all other reasonable options for better fuel economy in the future. [Nevertheless, we can't yet project a way whereby we can be at all confident of being able to meet the 1985 standard of 27.5 mpg, mandated by Congress, and at the same time offer a product range we believe American consumers will need and want.]

Emissions and Fuel Economy Are Inter-Related -- Problems in Achieving More Stringent Emission Levels Are Compounded

Emissions and fuel economy are inter-related, not only because tighter emission levels tend to reduce fuel economy, but because the final emission levels will determine the kinds of technology we can use for our future products. For example, we can't fully commit to specific plans for new types of engines until we are sure that the ultimate emission levels won't rule them out.

As a result, we don't know what type of vehicles we will be able to offer consumers under tighter emissions and fuel economy standards. If sales drop as a result of this compound effect, not only will jobs and the economy suffer but the national goals of cleaner air and energy conservation will be delayed by consumers holding on to larger, higher-polluting cars.

We Need an Answer for 1978 but ...

We desperately need an answer on 1978 emission levels. We cannot meet the standards presently in the law for 1978, nor (according to published reports) can any other manufacturer meet them on a full line of products. Both Houses of Congress agreed in the last session that these levels are not attainable for 1978.

One Year at a Time is Not the Answer

But a decision for 1978 alone is not an adequate answer. We can't continue to make future product plans without knowing what emission requirements we will have to meet. Time for further development of 1978 emission control systems has already run out and certification is already underway. Time for development of 1979 systems is rapidly running out. If the industry is to be required to meet tighter emission standards for the 1979 model year, we need to know as soon as possible precisely what those requirements will be.

We Need Prompt Action

There is no debate on the need for further improvement in clean air and fuel conservation, and Ford will continue to do its part in pursuing these goals. What we really need, however, if this industry is going to do its job well in meeting emissions/fuel economy goals is to have sensible and cost-effective emission goals set early enough to permit our engineers to develop tested and proven designs. We need some stability in emission goals, not year-to-year moving targets.

The difference in emissions schedules among the various proposals considered earlier this year is really minor in terms of clean air.

But the difference in our ability to achieve one schedule of standards versus another is enormous -- in terms of cost, technological options, quality and reliability; and the difference in fuel economy can be significant.

We ask that the new Administration take the lead in pushing for speedy and long term resolution of the automotive emissions issue early in 1977. It may well require separating automotive emissions from the other, even more complex problems affecting stationary pollution sources. In view of the stalemates to date, some compromises may well be required on the part of all concerned. The need for rapid action -- not only for 1978 and 1979, but for the long term -- seems accepted by virtually all parties. We're ready to discuss our detailed views on this subject at any time with the appropriate members of the new Administration.

Vehicle Emission Levels
Which Either Were or Are Under Consideration in
Congress and California

(HC/CO/NOx grams per mile)

	<u>Brodhead</u> (Rogers Support) Adopted by House Commerce Committee <u>3/18/76</u>	<u>Dingell*</u> (Train Support) Adopted by House of Representatives <u>9/15/76</u>	<u>Maskie</u> Adopted by U.S. Senate <u>8/5/76</u>	<u>Conference</u> <u>Committee</u> Report <u>9/30/76</u>	<u>California</u> <u>Standards</u>
1978	1.5/15/2	1.5/15/2	1.5/15/2	1.5/15/2	.41/9/1.5 (in effect)
1979	1.5/15/2	1.5/15/2	90% .4/3.4/2.0 10% .4/3.4/1.0 (Plus State Option)	.41/3.4/2	.41/9/1.5 (in effect)
1980	.41/3.4/2	.9/9/2	.41/3.4/1.0	.41/3.4/2	.41/9/1.0
1981	.41/3.4/.4*	.9/9/2	↓	.41/3.4/1	.41/9/1.0
(*Possible waiver up to 2 gmp in 1981-1982 and 1.5 gpm in 1983-1984.)					
1982	Same as above	.41/3.4/Set. by EPA		.41/3.4/1	.41/9/.4 (Proposed)
1985	.41/3.4/.4 ↓	↓	(NOTE: .4 as Research Objective)	↓ (NOTE: .4 as research objective plus demonstration cars.)	↓ (NOTE: Test require- ments in California differ somewhat from Federal test proce- dures.)

STATUTORY STANDARDS (presently in law): 1978 - .41/3.4/.4

* Supported by Ford Motor Company in the last Congressional session.